GENERAL MOTORS ANNUAL REPORT 1985

CADILLAC ELDORADO

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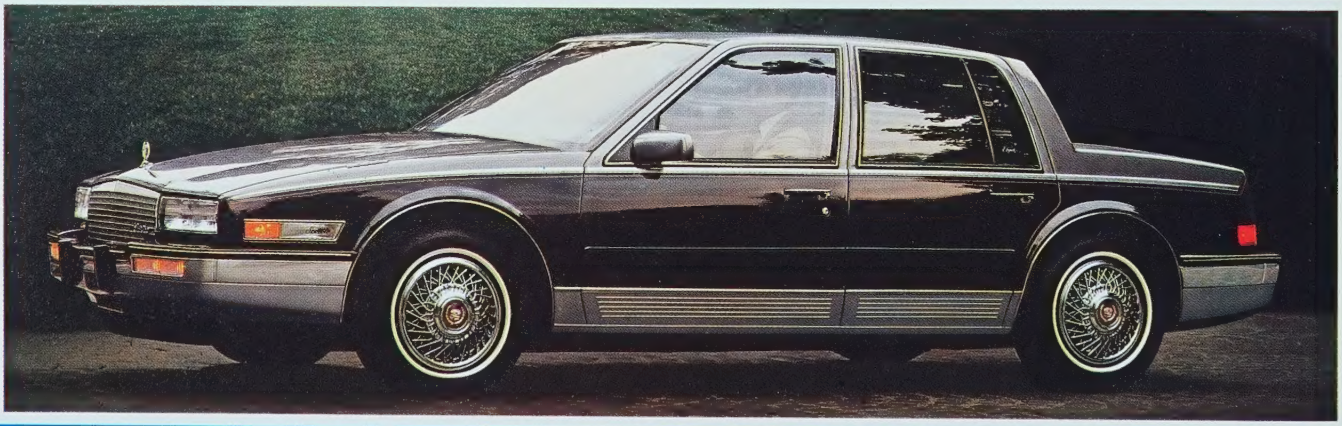


CADILLAC SEVILLE ELEGANTE

HIGHLIGHTS

(Dollars in Millions Except Per Share and Hourly Amounts)	1985	1984	1983
Sales and Revenues			
United States operations			
Automotive products	$84,377.0	$73,053.1	$63,665.0
Nonautomotive products	2,266.6	2,107.6	1,670.3
Defense	1,575.5	1,322.7	826.8
Computer systems services (since October 18, 1984)	879.4	148.7	–
Total United States operations	89,098.5	76,632.1	66,162.1
Canadian operations	13,778.3	12,581.6	11,232.4
Overseas operations	12,461.0	11,345.5	11,955.5
Elimination of interarea sales and revenues	(18,966.1)	(16,669.3)	(14,768.4)
Total	$96,371.7	$83,889.9	$74,581.6
Worldwide Factory Sales of Cars and Trucks (units in thousands)	9,305	8,256	7,769
Net Income			
Amount	$ 3,999.0	$ 4,516.5	$ 3,730.2
As a percent of sales and revenues	4.1%	5.4%	5.0%
As a percent of stockholders' equity	13.5%	18.7%	18.0%
Earnings attributable to:			
$1-2/3 par value common stock	$ 3,883.6	$ 4,498.3	$ 3,717.3
Class E common stock (issued in 1984)	$ 103.8	$ 5.7	–
Earnings per share attributable to:			
$1-2/3 par value common stock	$12.28	$14.27	$11.84
Class E common stock (issued in 1984)*	$1.57	$0.16	–
Cash dividends per share of common stocks:			
$1-2/3 par value common	$5.00**	$4.75***	$2.80
Class E common (issued in 1984)*	$0.195	$0.045	–
Taxes			
United States, foreign and other income taxes	$ 1,630.3	$ 1,805.1	$ 2,223.8
Other taxes (principally payroll and property taxes)	3,185.6	3,572.4	2,675.8
Total	$ 4,815.9	$ 5,377.5	$ 4,899.6
Taxes per share of $1-2/3 par value common stock	$14.43	$16.98	$15.61
Investment as of December 31			
Cash and marketable securities	$ 5,114.4	$ 8,567.4	$ 6,216.9
Working capital	$ 1,957.5	$ 6,276.7	$ 5,890.8
Stockholders' equity	$29,524.7	$24,214.3	$20,766.6
Book value per share of common stocks:			
$1-2/3 par value common	$79.13	$72.16	$64.88
Class E common (issued in 1984)*	$20.34	$18.04	–
Class H common (issued in December 1985)	$39.76	–	–
Number of Stockholders as of December 31 (in thousands)			
$1-2/3 par value common and preferred	927	957	998
Class E common	482	623	–
Class H common	592	–	–
Worldwide Employment (including financing and insurance subsidiaries, but excluding Hughes Aircraft Company)			
Average number of employes (in thousands)	811	748	691
Total payrolls (including profit sharing)	$25,639.1	$22,505.4	$19,605.3
Total cost of an hour worked–U.S. hourly employes	$23.40	$22.60	$21.80

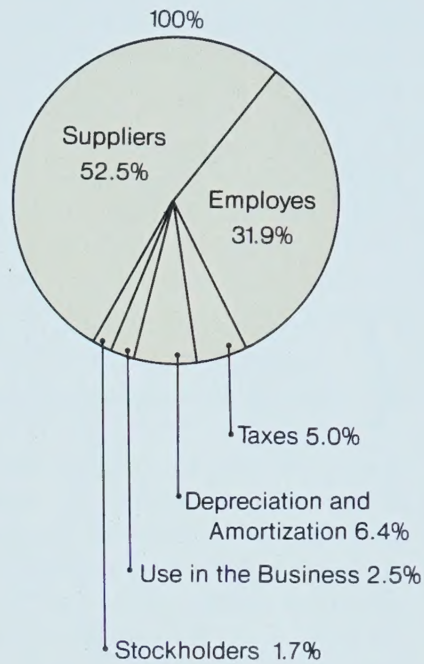
Earnings and earnings per share attributable to common stocks have been restated to reflect the Class E common stock amendment approved by the stockholders in December 1985.

*Adjusted to reflect the two-for-one stock split in the form of a 100% stock dividend distributed on June 10, 1985.

**In addition, in December 1985 holders of $1-2/3 par value common stock received a dividend of one share of Class H common stock for every 20 shares of $1-2/3 par value common stock held.

***In addition, in December 1984 holders of $1-2/3 par value common stock received a dividend of one share of Class E common stock for every 20 shares of $1-2/3 par value common stock held.

What Happened to the Revenue GM Received During 1985



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Cover

Confidently and boldly, General Motors is creating the 21st Century corporation to maintain its position as the world's preeminent manufacturing enterprise. The cover illustration shows the totally redesigned 1986 Cadillac Eldorado and some key organizational elements of the new GM.

LETTER TO STOCKHOLDERS

Finishing strong, General Motors marked 1985 as another year of significant accomplishment. Sales and revenues of $96.4 billion set a record for the third successive year, enabling GM to regain its worldwide sales leadership among industrial organizations, and net income of $4.0 billion was exceeded only in 1984. The fourth quarter of 1985 was the year's best quarter, bringing earnings per share of $1-2/3 par value common stock to $12.28 for the year.

The year ended with the acquisition of Hughes Aircraft Company—a development that for its long-term implications

The year ended with the acquisition of Hughes Aircraft Company—a major step in preparing General Motors for the future.

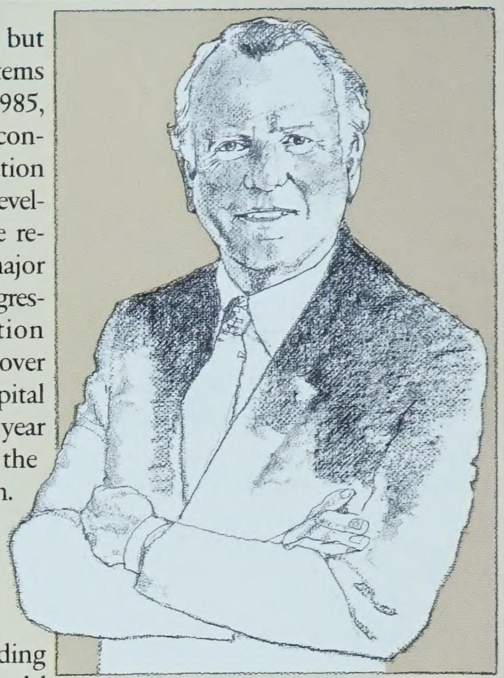
is as significant as the operating results. This is a major step in preparing General Motors for the future—reflecting and reinforcing the Corporation's strategic directions.

These strategies, which the people of General Motors together are carrying out, are fourfold. The first is to retain GM's leadership in the intensely and increasingly competitive worldwide automotive industry by producing high-quality, high-value products in the variety that customers demand. The second is to remain a significant force in related key industries. The third is to continue as a high-technology enterprise sustaining our competitive edge into the 21st Century. And undergirding these is the need to assure our stockholders an attractive return as a basis of their continuing support of GM's programs and objectives.

The Corporation's acquisitions—Electronic Data Systems (EDS) in 1984 and now Hughes Aircraft Company, as well as the mortgage-servicing businesses acquired by General Motors Acceptance Corporation (GMAC) in 1985—apply the concept of synergism to these strategic directions, achieving a total effect greater than the sum of the separate parts. For example, the people at GM are experts in developing manufacturing systems. EDS is the world's largest and most technically advanced computer-services company, expert in developing the software that controls automated manufacturing systems. And Hughes is expert in the integration of satellite communications, in microelectronics, and in systems engineering. The capabilities and experience of the EDS and Hughes people complement GM's strengths, helping us create the 21st Century corporation, and GM's strengths will support and enhance unfolding opportunities for EDS and Hughes.

Thus, the restructuring first of our North American automotive operations and now of our expanding passenger car business in Europe, the creation within GM of new entities such as Saturn Corporation, and the acquisition of businesses such as EDS and Hughes Aircraft all are means to the same end: a more competitive General Motors, more responsive to its many and varied customers.

Acquisitions add a dimension of useful diversification to General Motors, but the key is systems integration. In 1985, General Motors continued the integration of systems being developed by EDS, the reorganization of major operations, and aggressive modernization efforts requiring over $9 billion in capital investment last year alone, excluding the Hughes acquisition. An example of this modernization is the Detroit-Hamtramck Assembly Center that is building the all-new 1986-model luxury cars introduced last November. And overseas, General Motors opened a state-of-the-art European Technical Center in Luxembourg.



Roger B. Smith

Earnings necessarily reflect the costs attributable to the pursuit of GM's strategic initiatives. Earnings also continue to be affected by increases in labor and material costs only partially recovered through price. And the favorable effect normally associated with higher production levels was largely offset in 1985, particularly in the third quarter, by incentive campaigns that stimulated vehicle sales in the United States, but at a cost.

In this context, 1985 results were outstanding. The decline in net income from $4.5 billion in 1984 in part reflected a one-time tax adjustment for domestic international sales corporations that improved 1984 earnings. Worldwide sales and revenues of $96.4 billion in 1985 surpassed the previous high of

The capabilities and experience of the EDS and Hughes people complement GM's strengths, helping us create the 21st Century corporation.

$83.9 billion in 1984. Earnings of nonconsolidated subsidiaries and associates, principally reflecting record earnings of GMAC and its subsidiaries, totaled $1.0 billion, a 23% increase over 1984. Earnings of $12.28 per share on $1-2/3 par value common stock compared with $14.27 in 1984, which included nonrecurring income of $1.34 per share. In 1983, net income was $3.7 billion, or $11.84 per share, on sales of $74.6 billion.

Worldwide factory sales to GM dealers in 1985 totaled 9.3 million cars and trucks, which included record sales of 2.0 million vehicles overseas. The worldwide total was up from 8.3 million units sold in 1984 and 7.8 million in 1983.

Continuing the quarterly dividend rate in effect since the second quarter of 1984, General Motors paid cash dividends on the $1-2/3 par value common stock totaling $5.00 in 1985. This compared with $4.75 per share paid in cash in 1984 and $2.80 per share paid in 1983. In addition, the Board of Directors declared a fourth quarter dividend of one share of the new Class H common stock for every 20 shares of the $1-2/3 par value common stock outstanding, providing GM stockholders an immediate identification with the newly formed GM Hughes Electronics Corporation when the stock was distributed at year-end 1985. Valued at $1.94 per share, the Class H stock distribution resulted in a total 1985 dividend payout on the $1-2/3 par value common stock equivalent to $6.94 per share. In 1984, in addition to the cash dividends, a fourth quarter dividend of Class E common stock was paid on the $1-2/3 par value common stock. Valued at $1.90 per share, it brought

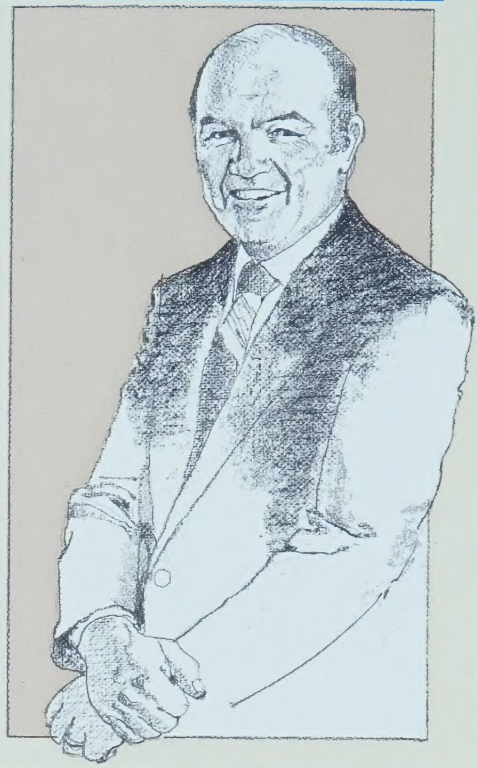
Never before in its history has General Motors been more strategically positioned to achieve its goals.

the total dividend payout on $1-2/3 par value common stock to $6.65 per share in that year. GM also paid cash dividends on Class E common stock of $0.195 per share in 1985 and $0.045 per share in 1984. Earnings per share attributable to Class E common stock amounted to $1.57 in 1985 and $0.16 per share in 1984. In the aggregate, General Motors stockholders participated in 1985 earnings through dividends in cash and stock totaling $2.2 billion.

Nor have we neglected the Corporation's responsibilities to our employes and toward the society in which we operate. U.S. operations provided $180.3 million in profit sharing funds distributed among 550,000 U.S. hourly and salaried employes, or an average of $328 per employe. GM has paid out more than $780 million in profits to its U.S. employes since March 1984.

More important, through programs in quality of work life, we are building a new relationship with our employes, a new partnership dedicated to providing the quality products and services that assure superior value to our customers. At the same time, we have demonstrated GM's continuing commitment to equal employment opportunity by making further progress in hiring and advancing minorities and women. On the world scene, GM helped form the U. S. Corporate Council on South Africa, composed of chief executive officers of major international corporations. Its purpose is to support peaceful initiatives endorsed by responsible South African business leaders to end apartheid in that troubled country.

What about 1986? Prospects look good for the auto industry, and for General Motors, in our principal business and in the related businesses in which we compete. The industry could sell more than 15 million vehicles in the United States again this year, compared with the record 15.7 million cars and trucks sold in 1985. And, with greater availability of our products, our goal is to increase the GM percentage of industry sales.



F. James McDonald

Critical to our U.S. production scheduling and planning, however, is the easing of the onerous burden of the Corporate Average Fuel Economy (CAFE) regulations for the 1987 model year and beyond. These regulations are now being considered by the U.S. Department of Transportation. Much also depends on how effectively the U.S. Government fulfills its responsibility of creating an environment conducive to a strong, healthy national economy.

To that end, there should be tax reform to increase the efficiency and equity of the tax code, and effective follow-through on the budget and trade deficits. Even in the short run, we cannot continue to bear the burden of these unprecedented twin deficits if we are to maintain the economy's momentum and help American business compete effectively in the world marketplace. So the outlook for 1986 is conditioned on these issues being handled effectively—and promptly.

We continue to conduct our business confidently. Never before in its history has General Motors been faced with more intense competition. But never before has your Corporation been more strategically positioned to achieve its goals. On your behalf as owners of the business, and for the satisfaction of the customers who depend on quality products and services, our task and our pledge as management is to maintain General Motors as the world's leading auto company—and most successful manufacturing enterprise.

Roger B. Smith

Chairman

F. James McDonald

President

February 3, 1986

REVIEW OF OPERATIONS

"GM continued aggressive modernization efforts requiring over $9 billion in capital investment last year."

Reflecting sustained economic expansion and the industry's continued strength, worldwide retail sales of General Motors vehicles in 1985 totaled 8.9 million units. This was an increase of 7% from the 1984 total and 17% from 1983. Worldwide retail sales by all manufacturers* totaled approximately 39.9 million vehicles in 1985. Facing intensified global competition, General Motors accounted for 22% of this worldwide total, the same as in 1984. GM attained 21% in 1983.

Customer acceptance of ten all-new or completely redesigned U.S. passenger car models contributed to GM's 1985 sales. These cars came from GM's newest state-of-the-art Detroit-Hamtramck Assembly Center, from the new "Buick City" assembly complex in Flint, the recently modernized Lansing facilities, and the renovated Willow Run facility, all located in Michigan, and from the GM/Toyota joint-venture plant in Fremont, California. The chart below lists these vehicles and also shows the six GM nameplates which were among the industry's ten U.S. best-sellers in 1985. Chevrolet Cavalier again led the list as the best-selling car among U.S. customers. GM's Oldsmobile Division had record sales for the third year in a row. GMC Truck & Coach Operation also had record sales in 1985.

*Estimated data exclude the Soviet Union, parts of Eastern Europe, and the People's Republic of China. Combined vehicle sales in these areas were estimated to be approximately 4.5 million units in 1985.

Saturn Sets Its Sites

Saturn Corporation, added to the GM lineup as a new operating unit in January 1985, soon will begin construction of its manufacturing and assembly complex at Spring Hill, Tennessee, about 30 miles south of Nashville. Selection of the Tennessee site, as well as the Michigan headquarters location for Saturn, was announced in July

All-New or Completely Redesigned GM Models Introduced in 1985 (U.S.)

Chevrolet	Pontiac	Oldsmobile	Buick	Cadillac
Nova	Grand Am sedan	Toronado Delta 88 Calais sedan	Riviera LeSabre Skylark sedan	Seville Eldorado

Top-Selling GM Cars in 1985 (U.S.)

Chevrolet	Pontiac	Oldsmobile	Buick	Cadillac
Cavalier (1) Celebrity (3) Caprice/Impala (7)		Cutlass Ciera (4) Cutlass Supreme (10)	Century (8)	

following a seven-month search. Saturn's objective is to market vehicles developed and manufactured in the United States that are world leaders in quality, cost, and customer satisfaction.

Saturn headquarters are in Troy and its engineering operations are in Madison Heights in the northern suburbs of Detroit. The new subsidiary expects to have up to 1,200 employes in the Detroit area.

Saturn's production complex will be a highly integrated facility manufacturing high-value components such as engines and transmissions at the assembly site, thus reducing inventories and material costs.

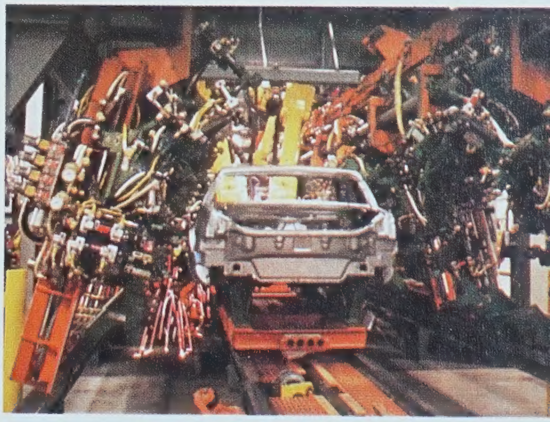
A first-of-its-kind labor agreement reflects the cooperative effort between the Saturn Corporation and the United Auto Workers to improve GM's competitive position. The agreement includes permanent job security, fewer job classifications, and salaries instead of hourly wages. More importantly, the operating philosophy of Saturn recognizes that its success will depend on the involvement of all its members as part of the Saturn team. Saturn eventually expects to employ approximately 6,000 people at the Tennessee complex.

GM Establishes European Coordinating Organization

In January 1986, GM announced it will establish a European coordinating organization to support its expanding passenger car business in Europe. This organization, to be located in Zurich, Switzerland, will operate under the name of General Motors Europe—Passenger Cars beginning in the spring of 1986. The new office is being established in response to the increased importance and growing competitiveness of the European markets, in which GM's Opel and Vauxhall car lines have increased their combined sales share by 25% since 1981.

Ferdinand P. J. Beickler, formerly GM Vice President, Passenger Cars—Europe and managing director of Adam Opel AG, GM's subsidiary in the Federal Republic of Germany, was named President of the new organization. He will continue to be a Vice

The first production cars came off the assembly line at the Detroit-Hamtramck Assembly Center in September 1985. Approximately 21 miles of conveyors move vehicles throughout the plant. At full production, 1,700 cars are in varying stages of assembly.



Several loosely assembled subassemblies are precisely aligned and welded in less than 50 seconds by 10 electric robots in a single machine called Robogate.

President of GM. John F. Smith, Jr., formerly President and General Manager, General Motors of Canada Limited, was appointed Executive Vice President of General Motors Europe—Passenger Cars in charge of operations and engineering. He will continue to be a Vice President of GM.

"GM Cars Rated Best"

General Motors cars and their drivers continue to perform very favorably when ranked according to auto injury insurance claims. In 1985, for the eighth year in a row, more GM cars appeared in the top ten rankings than cars of any other company, domestic or foreign. Findings are published each year by the Highway Loss Data Institute (HLDI), a nonprofit public service organization associated with the Insurance Institute for Highway Safety. In its latest report HLDI ranked GM's Oldsmobile Custom Cruiser station wagon best among all the models evaluated in terms of overall injury claim experience. Five other General Motors cars also performed "substantially better than average" and finished in the top group.

At the Detroit-Hamtramck Assembly Center, a robot applies a bead of urethane sealer to the edge of a windshield glass before it is installed on a vehicle.

Retail Sales in the United States

The third consecutive year of economic expansion propelled the U.S. auto industry to record heights in 1985. Industry-wide retail sales of new cars and trucks in the United States totaled 15.7 million units, a 9% increase from 1984 surpassing the former high of 15.4 million vehicles sold in 1978.

Foreign-sponsored cars and trucks accounted for 3.7 million units, or 24% of U.S. sales in 1985, compared with 1984 penetration of 22%.

GM dealers sold 6.3 million new cars and trucks in the United States in 1985, surpassing six million units for the second year in a row. It was the first time since the late '70s that General Motors had attained that level of U.S. customer sales in successive years. The 1985 total, a 5% increase from the 6.0 million units sold in 1984, consisted of 4.7 million passenger cars, up 2% from the preceding year, and more than 1.6 million trucks, a 15% increase from 1984 sales.

General Motors attained 40% of the total combined U.S. car and truck sales in 1985. This compared with 42% of U.S. sales the year before as competition intensified in North America. Shortages of certain popular models figured in the decline.

Retail Sales in Canada

Sales of passenger cars and trucks in Canada in 1985 reflected continuing improvement in the Canadian economy and increasing consumer confidence. Industry-wide retail sales of 1.5 million vehicles increased 19% from 1984.

Retail car and truck sales by GM dealers in Canada totaled 537,000 units, an increase of 13% compared with 1984. These sales accounted for 35% of all new cars and trucks sold in Canada in 1985, compared with 37% in 1984, reflecting important inroads of foreign imports in Canada.

Sales in 1985 by General Motors of Canada Limited, expressed in U.S. dollars, totaled $13.9 billion, up 10% from $12.6 billion in 1984.

International Retail Sales

General Motors recorded an all-time high for sales of motor vehicles overseas in 1985 as economic expansion continued worldwide. GM's worldwide performance was helped by several new-model introductions and expansion and modernization programs to enhance continued growth.

GM sold over 2.0 million vehicles outside the United States and Canada last year, a gain of 12% over 1984. The total included

Customized GMC SAFARI VAN

CHEVROLET CAPRICE CLASSIC BROUGHAM

1,738,000 cars and 290,000 trucks. GM's share of total overseas industry sales in 1985 was 8.6%, up slightly from the previous year.

In Europe, GM posted record deliveries of 1,324,000 cars and trucks, an increase of 12% from 1984. The competition for European passenger car sales remained extremely close and GM—with 11.4% of industry sales—ended the year only 1.5 percentage points behind the European sales leader. New versions of the popular Opel Kadett/Vauxhall Astra in the lower-medium segment and the Opel Corsa/Vauxhall Nova in the small-car field contributed to GM's sales momentum.

GM sales in the United Kingdom totaled 350,000 units, 8% higher than 1984. Deliveries in most other European countries surpassed the previous year, and GM was the sales leader in Denmark, Greece, and the Netherlands.

In May, GM dedicated a new European Technical Center in Luxembourg. Operated by the Automotive Systems Engineering Group (supported by the U.S.-based AC Spark Plug, Delco Electronics, Delco Products, Delco Remy, and Rochester Products Divisions), the center will provide state-of-the-art development, testing, and applications of complete motor vehicle systems to European manufacturers. It is staffed by European and American engineers.

In January 1986, GM acquired a 61.6% interest in Group Lotus plc, the United Kingdom-based engineering consulting and performance car manufacturing firm. In addition, GM also announced a public offer to acquire up to 100% of the balance of the outstanding shares. Lotus designs, manufactures, and markets high-performance cars worldwide and provides engineering consultancy to numerous automotive and industrial clients. Lotus has an outstanding reputation for innovation and craftsmanship, and is world renowned in the application of engine, vehicle dynamics, composites, aerodynamics, and other automotive technologies. GM is the largest customer of Lotus engineering services.

The Bedford Commercial Vehicle unit of GM's worldwide Truck & Bus Group announced in November that it will build a new microvan and pickup truck at its renovated plant in Luton, England. These vehicles were designed by GM's Japanese affiliate, Suzuki Motor Company, Ltd., and modified by Bedford specifically for sale in Europe. Bedford also is the world's first company to mass produce one-ton electric panel vans. Several of these electric vans are being operated in an international electric vehicle evaluation program involving seven North American utility companies in cooperation with the U.S. Department of Energy.

In Latin America, GM car and truck sales totaled 362,000 units in 1985, up 21% from the year-earlier total. Although the region still faces severe problems, positive actions by several countries to foster economic stability helped raise demand for motor vehicles. However, earthquakes in Mexico and a volcanic eruption in Colombia had severe adverse effects. In both countries, GM—along with its local subsidiaries and their employes and dealers—contributed substantially to emergency relief and reconstruction efforts.

Total GM deliveries in Brazil were a record 206,000 units, an increase of 22% over 1985. The Brazilian Chevrolet Monza was the country's best-selling model for the second consecutive year. Late in the year, GM do Brasil announced a four-year, $500 million capital spending program for product and plant improvements.

Continued strong demand for commercial vehicles in Mexico enabled GM car and truck sales there to rise 26% to 58,000 units. Vehicle deliveries in Venezuela climbed to 50,000, up 19% from the previous year.

Milestones observed during the year included the 60th anniversary for GM do Brasil and the 50th anniversary for GM de Mexico.

In Africa, GM sales declined 15% to 58,000 units due primarily to depressed economic conditions and social unrest in the Republic of South Africa. In September, GM Chairman Roger B. Smith and chief executive officers of other major U.S. corporations with subsidiaries in South Africa formed the U.S. Corporate Council on South Africa. The council's goal is to work actively for elimination of the apartheid system in South Africa.

In the Middle East, GM retail deliveries increased 14% to 68,000 cars and trucks despite a general economic slowdown

OLDSMOBILE CUTLASS CIERA BROUGHAM Coupe

caused by reduced oil revenues. In October, General Motors Egypt, S.A.E. marked the official opening of a new truck plant and administration building near Cairo.

In the Asia/Pacific region, GM sales totaled 211,000 units, up 6% from 1984. In Australia, the introduction of several new Holden's passenger car and light commercial models helped to increase deliveries to 131,000 units, 14% higher than the previous year.

Several U.S.-based divisions (Delco Moraine, Harrison Radiator, Saginaw, Fisher Guide, and Delco Remy) formed joint ventures in Korea to manufacture and assemble selected automotive components. These components will be used primarily for the Opel-designed passenger car to be produced by Daewoo Motor Company, Ltd., which is 50% owned by GM. Additionally, selected components will be available for export to other areas of the world.

Detroit Diesel Allison Division signed a licensing agreement with the China National Automotive Industry Import and Export Corporation and the Qijiang Gear Works to manufacture in China a range of heavy-duty, off-highway transmissions for large construction and mining trucks. GM also sold 20 Cadillac limousines to the China International Trust and Investment Corporation in Beijing, another first.

As a result of China's open-door policy and its increasing industrialization, GM held a two-day product demonstration in Beijing in November for top government officials. In July, GM participated in the Shanghai Auto Show, the first event of its kind ever held in China.

During 1985, GM converted half of the $200 million of convertible debentures issued by Isuzu Motors Limited of Japan and purchased by GM in 1982, thereby increasing its equity interest in Isuzu to 38.6% from 34.2%.

GM confirmed in August that, due to severe economic conditions and sharply reduced vehicle sales in the Philippines, it was closing the operations of General Motors Pilipinas, Inc.

Power Products and Defense Operations

In 1985, power products and defense operations continued to provide General Motors with an increasing number of new products and worldwide market opportunities. Additionally, the alliance between GM and Hughes Aircraft Company should significantly strengthen GM's position within the sizable market for defense products, as well as provide GM with a broader technological base for its existing power products business.

Detroit Diesel Allison Division (DDAD) continues to be North America's largest producer of light-, medium-, and heavy-duty diesel engines and the leading producer worldwide of heavy-duty automatic and military transmissions. During 1985, DDAD became the first truck engine manufacturer to market an electronically controlled fuel

injection system for heavy-duty diesel engines, thus complementing the Division's electronically controlled transmission introduced during 1984. Also during 1985, DDAD began marketing John Deere diesel engines through DDAD's extensive worldwide sales and service organization. This marketing agreement with Deere is expected to strengthen DDAD's position in the marketplace by utilizing Deere engines to augment the lower horsepower ranges of the present DDAD product line.

PONTIAC SUNBIRD TURBO GT Convertible

Electro-Motive Division's (EMD) 1985 sales of locomotives, as well as engines for oil well drilling, marine, and stationary applications, remained relatively constant from year-ago levels. During 1985, EMD began delivery of its new "60 Series" locomotive. As EMD's newest generation of locomotive, the "60 Series" takes advantage of recent GM/EMD advancements in diesel-engine and microprocessor technology along with improvements in various support systems to produce a locomotive that achieves outstanding levels of fuel economy and operating performance.

GM of Canada's Diesel Division experienced a significant sales increase for 1985, due primarily to the increased sales of locomotives, diesel engines and transmissions, and light armored vehicles for the U.S. Marine Corps. Locomotive deliveries for 1985 included units for Congo and various rail companies throughout Canada.

For 1985, Allison Gas Turbine Division (Allison) experienced improvement in its gas turbine products sales. Research and development investments and U.S. Government contracts were also increased in 1985. A significant development during 1985 was the U.S. Navy selection of Allison for full-scale engineering development of the V-22 Osprey aircraft engine. The V-22 Osprey is a vertical short-takeoff and landing tilt-rotor aircraft that can hover like a helicopter and cruise at high speeds like an airplane. All U.S. military services plan to use this aircraft. Another significant development was the U.S. Army award of a full-scale engineering development contract to the Light Helicopter Turbine Engine Company, a partnership between Allison and Garrett Turbine Engine Company for the development of a T800 helicopter engine. Plans also were announced for a propfan engine demonstrator program drawing heavily on technology from government-funded research programs. If successful, this program could lead to commercial and military air transport contracts.

CHEVROLET NOVA CL Hatchback

Military Vehicles Operation (MVO), established in 1984 to strengthen GM's commitment to the overall military vehicles business, continued in 1985 to develop sales opportunities for GM in key areas of this business. Deliveries of the Commercial Utility Cargo Vehicle, which was derived from the GM light-duty truck, continued to be strong throughout 1985.

PEOPLE OF GENERAL MOTORS

"We are building a new relationship with our employes, a new partnership dedicated to providing the quality products and services that assure superior value to our customers."

Employment and Payrolls

GM's worldwide employment and payrolls in 1985 increased over 1984 levels, reflecting expanded operations and the acquisition of EDS. Average worldwide employment totaled approximately 811,000 men and women in 1985, with payrolls (including profit sharing) amounting to $25.6 billion. This included 13,900 employes of GM's financing and insurance subsidiaries, whose payrolls amounted to $376.1 million, but does not include 80,000 employes of Hughes Aircraft Company, which became affiliated with GM effective December 31, 1985. In comparison, average worldwide employment in 1984 was 748,000 and payrolls totaled $22.5 billion, including 14,300 financing and insurance subsidiary employes with payrolls of $373.9 million.

GM's average U.S. hourly employment in 1985 was 400,000 men and women, with payrolls totaling $15.4 billion. This compared with 375,000 employes and payrolls of $13.6 billion in 1984. In 1985, GM's hourly labor costs in the United States, including benefits for both active and inactive employes, averaged approximately $23.40 per hour worked, compared with approximately $22.60 per hour worked during the previous year.

Benefit Plans

GM's provisions for pensions, health-care coverages, and other employe benefit programs in the United States totaled $5.7 billion in 1985, compared with $5.6 billion in 1984. Of the 1985 total, pension plan provisions amounted to $2.4 billion, and the cost of providing health-care coverages amounted to $2.1 billion. Employe acceptance of the "Informed Choice Plan," which was introduced in April 1985, contributed to a decrease in health-care costs compared with 1984. This marks the first time in more than 25 years that General Motors has recorded a year-to-year decline in health-care costs. The "Informed Choice Plan" enables employes to select from among three health-care coverages—the traditional coverage, a preferred provider organization, or a health maintenance organization. These options are designed to provide quality care on a cost-effective basis. The cost of other benefit programs, such as life insurance, sickness and accident insurance, Supplemental Unemployment Benefits, Guaranteed Income Stream, and

In the effective organization, it is people who make the difference. At General Motors, relations between managers and employes never have been more important than they are today. The Corporation is constantly seeking better ways to encourage the sharing of ideas, as shown in photographs throughout this section.

(Left) Employes at Saginaw Division's Hydraulic Pump Plant exchange information, face to face, with their plant manager.

the Savings-Stock Purchase Program, totaled $1.2 billion in 1985.

Equal Employment Opportunity

General Motors continued its commitment during the year to the concept of equal employment opportunity. At year-end 1985, minorities represented over 21% of GM's total U.S. work force, compared with 20% reported at the end of 1984. Minorities accounted for 13% of white-collar employment and 23% of blue-collar employment, compared with 13% white-collar and 22% blue-collar at the end of 1984.

GM's U.S. employment of women was 20% at year-end 1985 compared with 19% at the end of 1984. Women accounted for 25% of white-collar employes and 18% of blue-collar employes, compared with 24% white-collar and 18% blue-collar at year-end 1984.

A Change Affecting Salaried Employe Compensation

A new compensation program affecting GM salaried employes was expanded in January 1986, basing future pay raises on job performance. The performance pay system replaces the traditional cost of living allowance (COLA) and merit pay combination. Twelve GM divisions and staffs, involving 15,000 employes, began the merit performance pay system in January 1985 on a trial basis. Following favorable results, GM is extending the program to salaried employes at its remaining divisions and staffs in the United States and Canada.

In recent years, COLA has limited the Corporation's ability to recognize individual performance by taking up most of the available compensation dollars. The new system will give GM the flexibility to permit more appropriate pay increases based on individual performance. It encourages employes to perform at their best, recognizes employes based on their personal contributions and efforts, and maintains a salary system that will allow the Corporation to attract and reward top people.

GM-UAW Training Programs

The following training and education projects highlighted GM-UAW instructional efforts in 1985:

■ Construction began last May on a new 75,000-square-foot GM-UAW Human Resources Center on the Auburn Hills campus of Michigan's Oakland Community College. The center will serve as a national headquarters designed to house a number of joint GM-UAW programs.

One pivotal program focuses on training and instructional activities, directly addressing the question of how best to assist workers whose skills may no longer match the needs of today's auto industry. This shared goal of a work force that is more involved and secure ultimately enhances the Corporation's position as a world-class competitor.

■ The newly dedicated GM-UAW Health and Safety Training Center in Madison Heights, Michigan is another program that is part of the Human Resources Center. This one-of-a-kind center was established to provide meaningful and consistent safety training that will give GM employes the skills necessary to perform their jobs in the safest way possible. The new Health and Safety Training Center began training workers in September 1985. Eventually, workers from every UAW-represented GM location in the U.S. will receive training in a variety of safety practices.

■ Through an expansion of existing GM-UAW training agreements, a unique public-private pilot educational project undertaken in October 1985 links GM, the UAW, the State of Michigan, and the U.S. Government. The participants, forming a National Resource Committee, will evaluate the current and future education and training needs of industrial employes and develop a program at GM's Hydra-matic Division operations in Ypsilanti, Michigan.

This partnership linking Federal, state, and local educational agencies with ongoing GM-UAW training efforts will result in a model in-plant training program utilizing locally available educational and training resources. The project, which is to be extended to other GM plants, is intended to give local and state educators the opportunity to assist in training workers and improve the responsiveness of local schools in meeting the needs of industry.

Profit Sharing Payout

Earnings from U.S. operations were strong enough in 1985 to provide profit sharing

CHEVROLET S-10 MAXI-CAB Pickup

funds totaling $180.3 million to be distributed among some 550,000 U.S. hourly and salaried GM employes, or an average of $328 per employe. A typical employe who worked the full year will receive approximately $345 to $350, and will have the option of increasing the value of that payment by as much as $500 by exchanging it for a product discount certificate that can be applied to the purchase of a new GM vehicle during 1986. The incremental amount is not subject to tax, so the total pre-tax value could exceed $1,000 for an employe who purchases a luxury car. Since March 1984, when the first profit sharing payment was made, General Motors has paid out more than $780 million in profits to its U.S. employes.

Employes meet for a training session at the Detroit-Hamtramck Assembly Center. During start-up, about 2.3 million hours of training were provided to employes at the plant.

Hourly Employes Receive Performance Bonus Payments

In October 1985, eligible GM hourly employes throughout the U.S. shared in special performance bonus payments totaling about $300 million. These special payments, negotiated in the 1984 GM-UAW labor agreement, recognize the relationship between an improved standard of living, technological progress, and a cooperative attitude among all employes in achieving that progress. Individual payments are calculated at 2.25% of the worker's hourly rate for the previous year. A typical payment is in the range of $600 to $700, depending on the individual's rate of pay and the number of hours worked during the year. Similar lump-sum payments are scheduled for October 1986.

Incentive Program

Based on the stockholder-approved formula, GM's Incentive Program generated a credit of $260.7 million on worldwide profits of $4.0 billion. On the recommendation of management, the Incentive and Compensation Committee (a group composed of non-employe Directors) determined that the amount awarded for 1985 would be $42.1 million less than the maximum available under the incentive compensation formula. Thus, $42.1 million will be carried over to future years. The $218.6 million awarded to GM's managers will be paid in instalments over a three-year period, generally in equal portions of GM common stock and cash.

Organization Changes

The following organization changes were announced, effective February 3, 1986: Lloyd E. Reuss, formerly Vice President and Group Executive in charge of the Chevrolet, Pon-

Quality specialists from the production line at GM's Lordstown Assembly Plant gather product information directly from dealership personnel.

tiac, GM of Canada Group, was elected Executive Vice President in charge of North American Passenger Car Groups. ▪ Robert C. Stempel, formerly Vice President and Group Executive in charge of the Buick, Oldsmobile, Cadillac Group, was elected Executive Vice President in charge of both the Truck & Bus Group and the Overseas Group. ▪ William E. Hoglund, formerly President of Saturn Corporation, was appointed Group Executive in charge of the Buick, Oldsmobile, Cadillac Group. ▪ Robert J. Schultz, formerly Group Executive in charge of the Electrical Components Group, was appointed Group Executive in charge of the Chevrolet, Pontiac, GM of Canada Group. ▪ Richard G. LeFauve, formerly Group Director-Operations, Buick, Oldsmobile, Cadillac Group, was appointed President, Saturn Corporation. ▪ E. Michael Mutchler, formerly General Manager of Rochester Products Division, was elected a Vice President and Group Executive in charge of the Electrical Components Group. ▪ George A. Peapples, formerly Group Director, Strategic Business Planning, Chevrolet, Pontiac, GM of Canada Group, was elected a Vice President of GM and appointed General Manager of General Motors of Canada Limited, the board of which also elected him President of that subsidiary.

GMC BRIGADIER

Board of Directors

Since our last Annual Report, the following changes in the membership of the Board of Directors were announced.

Thomas H. Wyman, Chairman of CBS Inc., was elected to the Board on May 24, 1985.

Two members of the Board did not stand for re-election in 1985 pursuant to the Retirement Policy of the Board of Directors: John T. Connor, Chairman of the Board, Schroders Incorporated, who had served the Corporation with distinction for over 19 years; and John D. deButts, former Chairman of American Telephone and Telegraph Company, who had been a valued member of the Board since 1976.

Alexander A. Cunningham, Executive Vice President in charge of North American Automotive Operations, was placed on a disability leave of absence at the conclusion of which he will retire under the provisions of the General Motors Retirement Program. For reasons of health, he will no longer serve as a member of the Board. His wise counsel, based on nearly 38 years of worldwide experience, has been invaluable to the Corporation.

Lloyd E. Reuss and Robert C. Stempel, whose assignments are discussed in the section on Organization Changes, were both elected to the Board effective February 3, 1986. Mr. Reuss and Mr. Stempel also became members of the Executive Committee.

ELECTRO-MOTIVE DIESEL-ELECTRIC LOCOMOTIVES

In Memory of Gregory B. Jarvis

GM has established a $50,000 scholarship fund to honor the memory of Gregory B. Jarvis, an employe of GM's Hughes Aircraft Company subsidiary, who died January 28, 1986, in the explosion of the space shuttle Challenger. The scholarship will be named for Mr. Jarvis. It will be administered by the Hughes Management Club, which currently awards about 15 university scholarships annually for the technical education of children of Hughes employes.

FINANCIAL REVIEW: MANAGEMENT'S DISCUSSION AND ANALYSIS*

Results of Operations

General Motors' net income in 1985 of $3,999.0 million was $517.5 million lower than in 1984, due primarily to a one-time tax credit of $421.3 million relating to the domestic international sales corporation (DISC) recognized in 1984.

The Corporation's net income as a percent of sales and revenues was 4.1% in 1985, compared with 5.4% in 1984 and 5.0% in 1983.

As detailed in the table below, worldwide factory sales (sales of GM cars and trucks to its dealers) in 1985 totaled 9,305,000 units, 13% above 1984 unit sales. Worldwide dollar sales and revenues in 1985 were $96.4 billion, 15% above 1984. Dollar sales and revenues include price adjustments of $3.2 billion in 1985, compared with $2.9 billion in 1984 and $3.2 billion in 1983.

The second table below shows the percentage contribution to GM's total worldwide dollar sales and revenues, before elimination of interarea sales and revenues, by U.S., Canadian, and overseas operations. Automotive products accounted for 96% of GM's sales and revenues in each of the last three years.

*The comments covering power products and defense sales (pages 8 and 9), people of General Motors (pages 10 through 12), Electronic Data Systems operations (pages 17 through 20), GM Hughes Electronics operations (pages 21 through 24), and the effects of inflation on financial data (page 41) also should be read as an integral part of this discussion and analysis.

In analyzing the earnings for the three years, it should be noted, as shown on page 1, that the two largest cost elements are payments to suppliers (for raw materials and expenses) and the cost of labor. Taxes represent the fourth largest cost element of the Corporation. The significance of GM's tax burden is illustrated by comparing it with the level of cash dividends paid. For example, holders of $1-2/3 par value common stock received cash dividends of $5.00, $4.75, and $2.80 per share on their investment in 1985, 1984, and 1983, respectively. During the same period, taxes incurred were equivalent to $14.43, $16.98, and $15.61 per $1-2/3 par value common share, respectively.

1985 Compared With 1984

The 1985 net income of $3,999.0 million compares with 1984 net income of $4,516.5 million, which included the one-time tax credit of $421.3 million related to the DISC. As shown in the third table below, that income was earned principally in the United States and Canada.

Earnings per share attributable to $1-2/3 par value common stock amounted to $12.28 in 1985 versus $14.27 per share in 1984 (as restated to reflect the 1985 Class E common stock amendment). The $1.99 per share decline in earnings in 1985 is primarily attributable to the one-time credit related to the DISC of $1.34 per share recognized in 1984, increased costs not fully recovered through prices and costs associated with program systems being implemented by Electronic Data Systems Corporation (EDS).

Earnings per share attributable to Class E common stock amounted to $1.57 in 1985. These earnings are based on the Available Separate Consolidated Net Income of EDS (discussed beginning on page 17) as defined in Note 9 to the Financial Statements.

The acquisition of Hughes Aircraft Company (Hughes), discussed more fully on pages 21 to 24, was made effective December 31, 1985. Thus, although the Consolidated Balance Sheet and Statement of Changes in Consolidated Financial Position reflect this acquisition, the 1985 results of Hughes operations are not included in the Statement of Consolidated Income. Pro forma results for 1985 and 1984 of GM Hughes Electronics Corporation (GMHE), including Hughes, are shown on page 24.

Total taxes of GM, including payroll and property taxes but excluding the taxes of GM's financing and insurance operations, General Motors Acceptance Corporation (GMAC) and its subsidiaries as discussed below, totaled $4,815.9 million in 1985 compared with $5,377.5 million in 1984. The provision for U.S., foreign and other income taxes in 1985 reflects $1,271.0 million U.S. taxes, which includes the favorable impact of U.S. investment tax credits.

GMAC and its subsidiaries earned a record $1,021.0 million in 1985, compared with $784.8 million in 1984. The increase in earnings was principally a result of the

Worldwide Factory Sales

(Units in Thousands)	CARS			TRUCKS & BUSES			TOTAL		
	1985	1984	1983	1985	1984	1983	1985	1984	1983
United States	4,882	4,338	3,996	1,537	1,338	1,123	6,419	5,676	5,119
Canada	562	549	539	280	277	263	842	826	802
Overseas†	1,762	1,485	1,606	282	269	242	2,044	1,754	1,848
Total	7,206	6,372	6,141	2,099	1,884	1,628	9,305	8,256	7,769

†Includes units which are manufactured overseas by other companies and which are imported and sold by General Motors and affiliates.

Percentage of Worldwide Dollar Sales and Revenues Attributable to:

	1985	1984	1983
United States	77%	76%	74%
Canada	12	13	13
Overseas	11	11	13
Total	100%	100%	100%
Automotive	96%	96%	96%
Nonautomotive	4	4	4
Total	100%	100%	100%

Percentage of Net Income (Loss) Attributable to:

	1985	1984	1983
United States	91%	86%	93%
Canada	12	17	16
Overseas	(3)	(3)	(9)
Total	100%	100%	100%
Automotive	94%	100%	102%
Nonautomotive	6	—	(2)
Total	100%	100%	100%

increased level of earning assets and a decline in money costs in the U.S. and Canada. GMAC's income taxes, which are provided for separately from GM, increased $151.3 million to a total of $743.2 million for 1985 as a result of increased pretax earnings.

1984 Compared With 1983

The 1984 net income of $4,516.5 million compared with 1983 net income of $3,730.2 million. Earnings reflected the inclusion, for the period from October 18 to December 31, 1984, of the net income of EDS.

Earnings per share attributable to $1-2/3 par value common stock amounted to $14.27 in 1984 (as restated) versus $11.84 per share in 1983. The $2.43 per share improvement in earnings in 1984 was primarily attributable to higher volume, improved operating performance and the reversal of deferred income taxes related to the DISC, partially offset by increased costs not fully recovered through prices. Earnings per share attributable to Class E common stock amounted to $0.16 on a post-split and restated basis for 1984.

Interest expense decreased from 1983 due in part to the lower interest costs associated with reduced levels of long-term borrowings.

The provision for U.S., foreign and other income taxes in 1984 reflected $1,317.1 million U.S. taxes, which included the favorable impact of U.S. investment tax credits. These taxes were net of a deferred income tax reversal of $421.3 million, or $1.34 per share of $1-2/3 par value common stock, reflecting a change in the provisions covering DISCs in accordance with the Deficit Reduction Act of 1984.

GMAC and its subsidiaries earned $784.8 million in 1984, compared with the previous record $1,002.0 million in 1983. The decline in earnings was principally a result of higher short-term borrowing costs in the U.S., combined with the impact of earnings on retail receivables acquired in previous years at lower yields. GMAC's income taxes decreased $202.2 million to a total of $591.9 million for 1984 as a result of decreased pretax earnings.

Liquidity and Capital Resources

In 1985, cash and marketable securities decreased by $3,453.0 million, principally reflecting expenditures for property and for the acquisition of Hughes, only partially offset by funds provided by current operations and issuances of common stocks, less repurchases of preferred stocks.

In 1984, cash and marketable securities increased by $2,350.5 million, or 38%, principally reflecting funds provided by current operations and the net decrease in other working capital items, only partially offset by expenditures for property and for the acquisition of EDS. The net decrease in other working capital items consisted primarily of an increase in loans payable due principally to the notes issued in connection with the acquisition of EDS.

Robots manufactured by GMFanuc Robotics Corporation locate and weld body subassemblies in the Body Shop.

GM's liquidity can be measured by its current ratio (ratio of current assets to current liabilities). For the years ended December 31, 1985, 1984, and 1983, the current ratio, based on last-in, first-out (LIFO) inventories, was 1.09, 1.36, and 1.40, respectively. The LIFO method, while improving Corporate cash flow, adversely affects the current ratio. The first-in, first-out (FIFO) value of inventories, which more nearly reflects replacement cost, exceeded LIFO amounts at December 31, 1985, 1984, and 1983 by approximately $2.2 billion, $2.2 billion, and $2.0 billion, respectively. If inventories were valued at FIFO cost, the current ratio would be 1.13, 1.40, and 1.47, respectively.

During 1985, long-term debt increased $82.8 million reflecting an increase of $185.3 million in debt of consolidated subsidiaries (including long-term debt of Hughes), only partially offset by a decline of $102.5 million in debt of the Corporation. The ratio of long-term debt to the total of long-term

debt and stockholders' equity declined to 7.8% at year-end 1985.

Long-term debt was reduced in 1984 by $719.8 million as a result of decreases in long-term debt of $1,793.9 million exceeding increases of $1,074.1 million. Accordingly, the long-term debt ratio declined to 9.1% at December 31, 1984.

The ratio of long-term debt and short-term loans payable to the total of this debt and stockholders' equity amounted to 14.9% at December 31, 1985, a decrease of 3.6 points from the 18.5% ratio at December 31, 1984.

The senior long-term debt ratings of GM and GMAC were adjusted upward in May 1985 to the next to the highest possible rating, while the short-term commercial paper of GMAC continues to carry the highest possible rating. In line with the past practice of maintaining lines of credit, at year-end 1985 the Corporation and its subsidiaries (excluding GMAC) had unused short-term credit lines of approximately $2.6 billion and unused long-term credit agreements of approximately $1.5 billion.

Of the 1985 worldwide expenditures of $8.0 billion for real estate, plants and equipment, including $1.9 billion relating to the Hughes acquisition, approximately 84% were made in the United States (82% in 1984 and 78% in 1983), 5% in Canada (4% in 1984 and 7% in 1983), and 11% overseas (14% in 1984 and 15% in 1983).

Product programs necessary to respond to the demands of the marketplace for quality and fuel economy, to improve General Motors' competitive position worldwide, to improve plant efficiency, and to meet government standards require continued high capital expenditures. In each of the last ten years, GM has introduced substantially redesigned or new models in the United States and Canada. Significant product redesign programs also have been undertaken by overseas subsidiaries. Commitments for capital spending at December 31, 1985 totaled $6.3 billion, and it is anticipated that total capital expenditures, including the annual requirements of EDS and GMHE, will be approximately $10 billion in 1986, to be financed primarily from funds provided by current operations.

The decrease in preferred stocks reflects the Corporation's previously announced long-term program to repurchase such stock when it is considered economically attractive to GM. The difference between repurchase prices and the stated value of $100 per share has been credited to capital surplus.

Increases in $1-2/3 par value common stock and other capital surplus in 1985 and 1984 reflect use of newly issued stock for purposes of bonus deliveries, the Stock Option Plans (SOP) and the General Motors Dividend Reinvestment Plan (DRP). In 1983, newly issued stock was used for the SOP, the DRP, the Savings-Stock Purchase Programs, and the Employe Stock Ownership Plans. In addition, the Corporation exchanged common stock for long-term debt in 1983.

The issuance of Class E common stock in 1985 reflects primarily a two-for-one stock split in the form of a 100% stock dividend distributed on June 10, 1985, a public offering in February 1985 and EDS Stock Incentive Plan grants, while the 1984 increase reflected primarily the acquisition of EDS, as described more fully in Note 1 to the Financial Statements, and the dividend of one share of Class E common stock for every 20 shares of $1-2/3 par value common stock on December 10, 1984.

The issuance of Class H common stock reflects the acquisition of Hughes, as described more fully in Note 1 to the Financial Statements, and the dividend of one share of Class H common stock for every 20 shares of $1-2/3 par value common stock on December 30, 1985.

It is the Corporation's policy with respect to $1-2/3 par value common stock to distribute from current earnings such amounts as the outlook and the indicated capital needs of the business permit. In this regard, a strong capital position must be maintained in order to meet capital expenditures in the years ahead. The Class E common and Class H common stock dividend policies are discussed on pages 20 and 24, respectively, and in Note 9 to the Financial Statements.

Accumulated foreign currency translation adjustments of ($675.0) million at December 31, 1985 and ($789.5) million at December 31, 1984 are included in a separate section of stockholders' equity.

Book value per share of $1-2/3 par value common stock increased in 1985 to $79.13 from $72.16 at the end of 1984. Book value was $64.88 at the end of 1983. Book value per share of Class E common stock was $20.34 at the end of 1985 and $18.04 (post-split) at the end of 1984. Book value per share of Class H common stock was $39.76 at December 31, 1985. Net income as a percent of stockholders' equity was 13.5% in 1985, compared with 18.7% in 1984 and 18.0% in 1983.

PONTIAC GRAND AM Sedan

ELECTRONIC DATA SYSTEMS OPERATIONS

This Information Processing Center (IPC) in Auburn Hills, Michigan, is one of four that EDS added to the GM subsidiary's growing network in 1985.

On October 18, 1984, General Motors acquired Electronic Data Systems (EDS), a leader in the computer services industry. The operations of EDS since October 18 are included in the consolidated results of General Motors.

The earnings of EDS and its subsidiaries since acquisition by GM, including income earned from services provided to GM and its other subsidiaries but excluding purchase accounting adjustments, form the base out of which any dividends paid on the Class E common stock will be declared. These earnings are designated as the "Separate Consolidated Net Income" of EDS and the portion allocable to Class E common stock is described as "Earnings Attributable to Class E Common Stock" in the Financial Statements. The rights of holders of Class E common stock to participate in dividends are described more fully in Note 9 to the Financial Statements.

The year 1985 at EDS can best be described as a year of growth. It was a year that saw the company almost triple in size, a year in which revenues topped $3.4 billion, a year in which EDS assumed global responsibility for integrating, updating, and building GM's information management and telecommunication systems of tomorrow, and a year in which EDS continued to expand its business with customers other than GM.

When GM acquired EDS, the company employed approximately 15,000 people. Today, a little more than a year after joining GM, EDS employs over 40,000 people. All of them are committed to helping EDS maintain its leadership in the computer services field and helping GM maintain its world leadership as a vehicle manufacturer.

For the year ended December 31, 1985, in comparison with pro forma figures for the year ended December 31, 1984:

- Revenues increased 264%, from $947.4 million to $3,444.7 million.
- Separate consolidated net income increased 135%, from $80.7 million to $189.8 million.

The growth in EDS was, in large part, a consequence of the company's expanding responsibility for GM's worldwide information processing, automated manufacturing, and telecommunication activities. Following is a brief synopsis of major challenges successfully met by EDS in 1985.

The consolidation of GM's health-care and other benefits programs occurred early in the year. EDS also completed significant work on a further expansion of the eligibility system and work on the implementation of a centralized claims processing and health-care information system for GM.

EDS reduced GM's list of computer hardware vendors, established "value-added" pricing structures for the purchase of new equipment, and unified GM hardware purchasing at the Corporate level.

EDS took major steps toward the completion of a worldwide voice/image/data network for GM. The first major hubs of the network were finished in Flint, Michigan and Atlanta, Georgia. These installations were the largest initial steps toward implementing the diversified network of high-speed, digital switching systems which will serve GM facilities around the world. Other major systems are currently being implemented in Van Nuys, California; Plano, Texas; Edison, New Jersey; Dayton, Ohio; Chicago, Illinois; and Detroit and Warren, Michigan.

In a related move, EDS also installed the first transatlantic digital communication link connecting GM sites in Europe to U.S. operations. Yet another vital piece in GM's worldwide communications network, the link increased transatlantic data transmission capacity by more than 300%.

EDS also began a two-year effort to consolidate data processing work now done in several smaller GM data centers. Movement of that processing work to EDS' larger, more cost-effective, new or existing Infor-

mation Processing Centers (IPCs) is projected to result in cost savings for GM in years to come.

Several EDS systems integration and automation efforts—on the manufacturing floor and in the administrative office—also came to fruition at GM locations. Some prominent examples include: the development of integrated programs for a completely automated axle-assembly line at the GM Mechanical Components Group's "Factory of the Future;" the development of the Buick, Oldsmobile, Cadillac Group's Product Purchasing, Outside Supplier Communication Automation, and Lines Full Inventory systems; the launching of the Truck & Bus Group's Dealer Marketing Assistance Center; the engineering of the Chevrolet, Pontiac, GM of Canada Group's Customer Assistance Service; and the planning of Saturn Corporation's new systems.

Its massive control center is the heart of the data processing and telecommunications services provided by an IPC. This is the control room at Auburn Hills, Michigan.

At several GM international subsidiaries, EDS launched similar efforts. Major units which have contracted with EDS for data processing work include: Vauxhall Motors Limited, and the Bedford Commercial Vehicle unit, both based in Luton, England; General Motors-Holden's in Australia; and Adam Opel AG, near Frankfurt, Federal Republic of Germany.

In addition to contracting to do the information processing work of GM's subsidiaries in more than 21 countries throughout Europe, Latin America, and the Pacific Basin, EDS expanded its international business with non-GM customers by more than 100% over the previous year. Topping the list of added business was the expansion of EDS' existing 10-year facilities management contract with Unilever PLC of London. Unilever is one of the world's largest consumer-goods companies. This latest EDS contract involves EDS' management of Unilever's data processing at the company's joint head offices in London and Rotterdam. The contract represents EDS' largest international contract to date. EDS further penetrated the international financial market by expanding an agreement with the largest savings bank in Spain, Caixa de Pensiones, and adding a new contract to support a European banking consortium, Funds Transfer Sharing Ltd.

In the telecommunications arena, EDS signed a major multiyear management contract with the Western Union Telegraph Company. Equally significant in 1985, EDS further expanded its relationship with American Telephone and Telegraph Company—signing a contract to provide corporate-wide support of AT&T information processing and marketing activities.

In the governmental arena, several Federal agencies awarded EDS major contracts in 1985. Major agreements included: a Department of Defense contract for implementation of the Real-time Automated Personnel Identification System (RAPIDS), a military personnel tracking system; a multiyear contract for office automation at the Immigration and Naturalization Service; a 10-year systems integration contract for the Department of Agriculture; and a seven-year systems integration contract for the Customs Service. EDS also

continued its support of state and local governments' Medicare and Medicaid programs. A standout among several new and renewed contracts was a Medicaid support contract which represented EDS' first business with the State of Arkansas.

On the domestic financial front, EDS in 1985 signed the largest single credit-union contract in its history, bringing Tinker Credit Union into its CUNADATA subsidiary's ranks. The credit union at Tinker Air Force Base, Oklahoma, boasts 135,000 members and $400 million in assets. In total, EDS signed new or renewed contracts with 1,100 credit unions in 1985. EDS also signed new contracts with 42 community banks and added five California savings and loan associations to its customer lists.

EDS moved further into the commercial marketplace in 1985, adding the National Cotton Council to its growing list of customers. Racal-Milgo, a world leader in data communications products, also became a new EDS customer.

EDS further solidified its position as a leading computer services provider to the nation's Blue Cross and Blue Shield plans. In 1985, EDS signed multiyear facilities management contracts with plans in Massachusetts and Iowa. Also, several commercial insurance carriers signed multiyear facilities management contracts with EDS in 1985: Jackson National Life Insurance Co. of Lansing, Michigan; Los Angeles-based Transamerica Occidental, an industry giant; Aetna Casualty and Surety Co., one of the country's five largest property-casualty insurance companies; and Shand, Morahan and Co. of Chicago, a worldwide reinsurance brokerage firm and EDS customer since 1979.

The addition of four new IPCs in 1985—located in Michigan, Texas, and North Carolina—further strengthened EDS' ability to serve the data processing needs of its customers. Connected by land lines, microwave, and satellite relays, a total of 15 large IPCs and several smaller data centers around the globe are now part of EDS' growing and powerful worldwide network.

EDS nearly tripled in size in 1985, becoming a major employer in Southeastern Michigan in order to serve GM and other customers.

The following are summary financial data relating to the EDS operations which form the basis for earnings attributable to Class E common stock for the year 1985 and for the period from date of acquisition in 1984. For purposes of analysis, pro forma data for 1984 and 1983 are also presented.

Summary Financial Data

(Dollars in Millions Except Per Share Amounts)	Year Ended December 31, 1985	Oct. 18 to Dec. 31, 1984	Pro Forma Year Ended December 31, 1984	Pro Forma Year Ended December 31, 1983
Revenues:				
Systems and other contracts:				
GM and affiliates	$2,428.1	$ 36.4	$ 59.3	$ –
Other customers	978.3	184.5	866.6	701.7
Interest and other income	38.3	4.8	21.5	30.1
Total Revenues	3,444.7	225.7	947.4	731.8
Costs and Expenses	3,082.2	191.1	808.1	614.9
Income Taxes	172.7	15.9	58.6	51.7
Separate Consolidated Net Income	$ 189.8	$ 18.7	$ 80.7	$ 65.2
Available Separate Consolidated Net Income*	$ 103.8	$ 5.7		
Average number of shares of Class E common stock outstanding (in millions)	66.5	36.3**		
Earnings Attributable to Class E Common Stock on a Per Share Basis	$1.57	$0.16**		
Cash dividends per share of Class E common stock	$0.195	$0.045**		

Earnings and earnings per share attributable to Class E common stock have been restated to reflect the Class E common stock amendment approved by the stockholders in December 1985. (See Note 9, page 33.)

*Separate consolidated net income of EDS multiplied by a fraction, the numerator of which is the weighted average number of shares of Class E common stock outstanding and the denominator of which is currently 121.9 million shares. Available Separate Consolidated Net Income is determined quarterly.

**Adjusted to reflect the two-for-one stock split in the form of a 100% stock dividend distributed on June 10, 1985.

(Dollars in Millions)	December 31, 1985	December 31, 1984
Current Assets:		
Cash and marketable securities	$ 387.8	$162.5
Accounts receivable: GM and affiliates	91.2	43.4
Other	160.4	148.0
Other current assets	113.5	37.3
Total Current Assets	752.9	391.2
Data Processing Facilities, Property and Equipment	609.3	106.7
Other Assets:		
Investment in nonconsolidated subsidiaries	28.5	.6
Land held for investment and development	109.8	72.5
Other operating assets	94.7	36.3
Total Assets	$1,595.2	$607.3
Current Liabilities:		
Accounts payable	$ 185.5	$ 35.4
Notes payable—current portion	4.2	5.7
Deferred revenue	62.1	24.0
Income taxes	15.9	47.9
Advances from GM and affiliates	75.3	2.9
Other accrued liabilities	311.8	90.0
Total Current Liabilities	654.8	205.9
Long-Term Debt and Deferred Credits:		
Notes payable—long-term portion	21.4	27.2
Notes payable to GM	301.4	–
Deferred income taxes	81.2	15.3
Deferred revenue	5.8	13.4
Stockholder's Equity	530.6	345.5
Total Liabilities and Stockholder's Equity	$1,595.2	$607.3

These data do not include the cost to GM, $2,006.3 million, of EDS customer contracts, computer software programs, and other intangible assets arising from the acquisition of EDS by GM. The cost of these assets is being amortized by GM over their estimated useful lives. Amortization for 1985 was $346.3 million and for the period from the date of the acquisition to December 31, 1984 was $68.4 million. The unamortized balance at December 31, 1985 and 1984 was $1,698.5 million and $1,937.9 million, respectively. For the purpose of determining earnings per share and amounts available for dividends on common stocks, the amortization of these assets is charged against earnings attributable to $1-2/3 par value common stock. The effect on the 1985 and 1984 earnings attributable to $1-2/3 par value common stock was a net charge of $241.0 million and $31.7 million, respectively, consisting of the amortization of the intangible and other assets arising from the acquisition less related income tax effects, the profit on intercompany transactions and the earnings of EDS attributable to $1-2/3 par value common stock. (See Note 9, page 33.)

In 1985, EDS changed its method of accounting for investment tax credits from the flow-through method to the deferral method used by the Corporation. The effect of the change was to reduce 1985 earnings attributable to Class E common stock by $0.41 per share and defer the recognition to earnings attributable to Class E common stock in future years.

The current policy of the GM Board of Directors is that cash dividends on the Class E common stock, when, as and if declared by the Board in its sole discretion, will equal approximately 25% of the Available Separate Consolidated Net Income of EDS. Consistent with the practice of EDS prior to its acquisition by GM, the current GM practice is to pay dividends on the Class E common stock based upon prior year's earnings. The rights of holders of Class E common stock to participate in dividends are described in greater detail in Note 9 to the Financial Statements.

GM took a strategic business step effective December 31, 1985 when it acquired the Hughes Aircraft Company (Hughes).

Hughes, a world leader in electronic control systems and components, brings to GM advanced technologies and scientific expertise essential for its products and factories of the future.

GM Hughes Electronics Corporation (GMHE), a new wholly owned subsidiary of GM, is the holding company that owns both Hughes and the newly formed Delco Electronics Corporation (Delco Electronics). Delco Electronics, a leading designer and producer of automotive electronic components and systems, is comprised of the following GM units: Delco Electronics Division; the Instrumentation and Display Systems business unit of AC Spark Plug Division; Delco Systems Operations; plus related foreign activities.

The purpose of GMHE is to accelerate the application of advanced electronic systems and components in GM's products and plants; to lead in the design, manufacture, marketing and servicing of high technology electronic products to the worldwide automotive, defense and space industries; and to create entirely new business ventures.

Hughes will be operated as an independent company and will continue to focus its activities in the defense and space industries. Delco Electronics will also be operated as an independent company with primary emphasis on automotive electronics. It also will serve as the technology transfer conduit between Hughes and General Motors.

Even though the end applications differ, there is a large degree of commonality and potential synergy between the technologies of the two companies. Teams already are working in areas where technology and skills can profitably be transferred between Hughes and GM, and where combinations of expertise might lead to new products or services. These include: integrated cir-

Mexico's first national communications satellite is readied for testing in the Space Simulation Laboratory of Hughes Aircraft Company in El Segundo, California. The satellite, built by the Hughes Space and Communications Group, stands nearly 22 feet high when deployed.

The equipment in Delco Electronics new 60,000-square-foot clean room is used to manufacture microchips on 5-inch silicon wafers. The microchips are used in the manufacture of engine controls, entertainment systems, electronic climate controls, and on-board computers.

cuits, instrumentation and displays, multiplexing, telecommunications, computer control systems, computer-integrated manufacturing, electronics manufacturing, and computer simulations. The interaction in these technical areas will greatly strengthen both Hughes and GM.

Hughes will gain from GM's expertise as a world leader in high-volume vehicle and electronics manufacturing. Similarly, GM will benefit from Hughes' position as a leader in systems engineering, communications, integrated circuits, microelectronics, integrated and real-time software, instrumentation and displays, radar, and electro-optical sensors.

With the help of Hughes technology, GM will develop new cars and trucks that will outperform today's vehicles in terms of driveability, fuel economy, safety, comfort, and emissions, and at the same time, provide superior information, communication, and entertainment systems. Hughes engineering skills also will assist GM in taking a total systems approach to its production and assembly operations, creating a computer-integrated manufacturing and management information process. Such a system will speed decision-making, cut costs, improve product quality, and enable GM to react more quickly to the marketplace.

An area of immediate technology transfer potential is in communications. Hughes is the world leader in the design, development and deployment of commercial satellite communications systems. Electronic Data Systems (EDS), also a GM subsidiary, is a world leader in data processing and industrial communications. Together, Hughes and EDS will develop a new, advanced global satellite communications system for the transmission of management and technical data among GM's plants and operations worldwide.

These strategic uses of advanced electronics and systems engineering will enable GM to maintain its position as the leader in the worldwide automotive industry, and enable it to develop totally new business ventures.

HUGHES AIRCRAFT COMPANY

Hughes' activities include more than 1,500 projects and the production of over 12,000 separate products and services. These range from microelectronic components to integrated and real-time software and to vast air defense and satellite communications systems.

Hughes' backlog of defense and space contracts at the end of 1985 was $10.7 billion, or nearly double its 1985 sales, including new contract awards in 1985 totaling more than $7.3 billion.

Hughes' five systems groups account for more than 90% of total product sales. Four principal support organizations account for the remainder. Following is a review of their respective 1985 activities.

Systems Groups

The Electro-Optical and Data Systems Group (EDSG) specializes in the design and manufacture of electro-optical sensors and weapons control systems for use in space, airborne, and surface applications. During 1985, the group received contracts amounting to more than $1.1 billion. Major production contracts awarded were for the TOW Missile fire control system for the Bradley Fighting Vehicle, the M-60 Tank fire control system, and the Trident MK-6 Missile guidance system.

The Ground Systems Group (GSG) develops and produces a diverse range of products, including automated command and control systems for tactical air defense, land- and ship-based radar systems, weapon control displays, sonar-guided torpedoes, and jam-resistant communications systems. Twenty-three nations of the free world depend on Hughes air defense systems to protect their more than 850 million people. GSG won new contracts worth more than $1.4 billion in 1985, including awards for the MK-48 Advanced Capability Tor-

A sophisticated vision test stand is used to monitor final assembly of vacuum fluorescent instrument clusters to assure 100% conformity to specifications. The Delco Electronics Instrumentation and Display business unit assembles approximately 25,000 instrument clusters daily.

Hughes shipboard Operations Summary Console displays computer-generated symbols and data from radar, sonar, and television sources.

pedo Guidance and Control System, the UYQ-21 Shipboard Data Display Console System, and for a Position Location Reporting System.

The Missile Systems Group (MSG) designs and manufactures advanced tactical guided missiles, weapon delivery systems, and supporting equipment. This includes airframes, guidance control equipment, and launchers for missile systems used in land, sea, and aerial combat. In 1985, MSG was awarded more than $1.3 billion in new contracts. These included production awards for the IR Maverick Missile, the Phoenix Missile, and the TOW Missile.

The Radar Systems Group (RSG) supplies airborne radar and weapon control systems for three of the four front-line U.S. tactical fighter aircraft currently in production for U.S. and allied armed forces. In addition, RSG designs and builds airborne avionics systems, data links, and related displays and controls. New contracts awarded RSG during 1985 totaled more than $1.2 billion. The largest awards were for the F-15 Aircraft APG-63 Radar, the F/A-18 Aircraft APG-65 Radar, and the F-14A Aircraft AWG-9 Weapon Control System.

The Space and Communications Group (SCG) has furnished the world with more than half of all the commercial communications satellites now in service. The group also designs and builds satellites for national defense. During 1985, SCG's commercial space efforts reached an all-time high of nine communications satellite launches. SCG received 1985 contracts amounting to more than $1.4 billion. Major awards included contracts for a Japanese telecommunications satellite, an International Maritime Satellite payload, and Galaxy Satellite transponders.

Support Organizations

The Industrial Electronics Group (IEG) produces large-scale integrated circuits and hybrid microcircuits; microwave and millimeter-wave equipment; image sensing, storage, and display devices; airborne and shipboard switching and communications systems; automated manufacturing and test equipment; connectors and cable assemblies; and solar cells.

Hughes Research Laboratories (HRL) conducts both basic and product-directed research in advanced electronics and related physics. The emphasis is on technologies expected to generate marketable products within five to ten years. During 1985, HRL completed a prototype of the world's fastest electron-beam lithography machine. The device is capable of manufacturing integrated circuits with sub-micron features.

Support Systems provides field engineering, installation, maintenance, and training services, as well as integrated logistic support management to Hughes systems users worldwide. The organization also designs and develops sophisticated electronic test equipment and aviation's most advanced training simulators.

The Santa Barbara Research Center is a Hughes subsidiary specializing in advanced infrared detector systems. Other products include imaging sensors used on weather and earth resource observation satellites.

DELCO ELECTRONICS CORPORATION

Delco Electronics Division

Delco Electronics Division's principal products include automotive control electronics, entertainment and comfort systems, and semiconductors. Automotive control electronics products include engine and transmission modules for control of fuel/air mixture and ignition, and shift timing to improve smoothness. Electronic control of engine and transmission functions helps reduce emissions and improves fuel economy, while maximizing overall vehicle performance and driveability. Other electronic components produced are vehicle body computer modules, which support digital information displays and provide vehicle diagnostics; electronics for automatic level adjustment; anti-theft systems; and components for electronic instrument clusters.

Entertainment and comfort systems consist primarily of radios, cassette tape players, and automotive air conditioning and heating controls. Delco Electronics currently manufactures a variety of radios with approximately 150 different models for sale to GM car and truck groups.

The semiconductor product lines include integrated circuits used in audio and automotive control electronics as well as "hybrid" engine components such as voltage regulators, ignition modules, and spark control modules.

During 1985, Delco Electronics introduced a new and smaller advanced engine control computer that offers increased reliability, memory, speed and computational ability. Also introduced were a new electronic vehicle anti-theft system, incorporating a special ignition key; a new generation of vehicle body computers; a new advanced radio; a direct ignition system that replaces the distributor and associated control module; and a new voltage regulator which features diagnostic capability.

Instrumentation and Display Business Unit

Instrumentation and Display products consist primarily of instrument clusters, which include speedometers, tachometers, and electrical meters. Although the majority of current products consist of mechanical devices, electromechanical and electronic clusters using liquid crystal, vacuum fluorescent, and cathode ray tube technologies are now being produced in greater volume. New products introduced in 1985 included a cathode ray tube instrument panel for the 1986 Buick Riviera, a standard-equipment item which was a first in North America, and electronic instrumentation for the 1986 Cadillac Eldorado and Seville, Buick Riviera, and Oldsmobile Toronado.

Delco Systems Operations

Delco Systems produces computers for guidance, navigation, and avionics systems for use in commercial and military air and space vehicles and armament systems for military armored vehicles. In addition, Delco Systems develops commercial vehicle electronics on contract for other GM units and performs aerophysics research at its hypervelocity ballistic range facility. In 1985, Delco Systems completed engineering development of a Very Large Scale Integrated (VLSI) computer which features significant advances in speed, power, reliability, and compact size.

GM HUGHES ELECTRONICS

GMHE has 105,000 employes—80,000 from Hughes and 25,000 from Delco Electronics. The operations of Hughes for 1985 are not included in the GM Statement of Consolidated Income shown on page 25. However, pro forma data for GMHE, including Hughes, for 1985 and 1984 are displayed on this page. Based on 1985 pro forma sales of $9.5 billion, GMHE ranks among the top 40 U.S. industrial companies. These sales are 12% higher than 1984 pro forma sales of $8.5 billion. GMHE's 1985 pro forma earnings of $488.6 million were down slightly from the 1984 pro forma earnings of $517.8 million. The decrease was primarily a result of an increase in the loss provisions for estimated costs to be incurred by Hughes in excess of negotiated contract ceiling prices including full-scale development of the Advanced Medium Range Air-to-Air Missile (AMRAAM), development costs of commercial satellites, and increased quality control efforts, partially offset by the increased earnings of Delco Electronics.

The earnings of GMHE and its subsidiaries, Hughes and Delco Electronics, excluding purchase accounting adjustments, form the base from which any dividends paid on the Class H common stock may be declared. The policy of the GM Board of Directors will be that cash dividends on the Class H common stock, when, as, and if declared by the GM Board of Directors in its sole discretion, will equal approximately 25% of the Available Separate Consolidated Net Income of GMHE. The GM practice will be to pay dividends on the Class H common stock based upon prior year's earnings. The rights of holders of Class H common stock to participate in dividends are described in greater detail in Note 9 to the Financial Statements.

The following are pro forma summary financial data relating to the GMHE operations which will form the basis for earnings attributable to Class H common stock.

Summary Financial Data

(Dollars in Millions Except Per Share Amounts)	Pro Forma Year Ended December 31, 1985	1984
Revenues:		
Net sales:		
GM and affiliates	$3,054.2	$2,475.3
Other customers	6,414.9	6,009.8
Other income—net	34.7	63.9
Total Revenues	9,503.8	8,549.0
Costs and Expenses	8,962.0	7,978.0
Income Taxes	202.0	202.0
Separate Consolidated Net Income	339.8	369.0
Available Separate Consolidated Net Income:		
Adjustments to exclude the effect of purchase accounting*	148.8	148.8
Earnings of GMHE, Excluding Purchase Accounting Adjustments	$ 488.6	$ 517.8
Available Separate Consolidated Net Income**	$ 160.0	$ 169.6
Average number of shares of Class H common stock outstanding (in millions)	65.5	65.5
Earnings Attributable to Class H Common Stock on a Per Share Basis	$2.44	$2.59

*Amortization of intangible assets arising from the acquisition of Hughes.

**Earnings of GMHE, excluding purchase accounting adjustments, multiplied by a fraction, the numerator of which is the weighted average number of shares of Class H common stock outstanding and the denominator of which initially will be 200 million shares. Available Separate Consolidated Net Income will be determined quarterly. (See Note 9, page 33.)

(Dollars in Millions)	December 31, 1985	Pro Forma December 31, 1984
Current Assets:		
Cash	$ 142.8	$ 108.2
Accounts and notes receivable:		
GM and affiliates	296.4	455.1
Other	472.8	443.9
Contracts in process	1,453.8	1,286.0
Inventories	616.6	566.9
Prepaid expenses	79.9	49.2
Total Current Assets	3,062.3	2,909.3
Property	2,529.2	2,299.5
Intangible Assets	4,244.7	4,244.7
Other Assets	49.0	37.9
Total Assets	$9,885.2	$9,491.4
Current Liabilities:		
Accounts payable:		
GM and affiliates	$ 36.4	$ 16.7
Other	1,003.7	301.7
Notes payable	208.2	167.6
Income taxes	692.5	807.6
Other accrued liabilities	1,129.1	1,524.5
Total Current Liabilities	3,069.9	2,818.1
Long-Term Debt	261.7	254.9
Capitalized Leases	31.4	40.6
Other Liabilities	156.3	146.6
Stockholder's Equity	6,365.9	6,231.2
Total Liabilities and Stockholder's Equity	$9,885.2	$9,491.4

CONSOLIDATED FINANCIAL STATEMENTS

General Motors Corporation and Consolidated Subsidiaries

RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The following financial statements of General Motors Corporation and consolidated subsidiaries were prepared by the management which is responsible for their integrity and objectivity. The statements have been prepared in conformity with generally accepted accounting principles and, as such, include amounts based on judgments of management. Financial information elsewhere in this Annual Report is consistent with that in the financial statements.

Management is further responsible for maintaining a system of internal accounting controls, designed to provide reasonable assurance that the books and records reflect the transactions of the companies and that its established policies and procedures are carefully followed. From a stockholder's point of view, perhaps the most important feature in the system of control is that it is continually reviewed for its effectiveness and is augmented by written policies and guidelines, the careful selection and training of qualified personnel, and a strong program of internal audit.

Deloitte Haskins & Sells, independent certified public accountants, are engaged to examine the consolidated financial statements of General Motors Corporation and its subsidiaries and issue reports thereon. Their examination is conducted in accordance with generally accepted auditing standards which comprehend a review of internal accounting controls and a test of transactions. The Accountants' Report appears on page 38.

The Board of Directors, through the Audit Committee (composed entirely of non-employe Directors), is responsible for assuring that management fulfills its responsibilities in the preparation of the financial statements. The Committee selects the independent public accountants annually in advance of the Annual Meeting of Stockholders and submits the selection for ratification at the Meeting. In addition, the Committee reviews the scope of the audits and the accounting principles being applied in financial reporting. The independent public accountants, representatives of management, and the internal auditors meet regularly (separately and jointly) with the Committee to review the activities of each and to ensure that each is properly discharging its responsibilities. To ensure complete independence, Deloitte Haskins & Sells have full and free access to meet with the Committee, without management representatives present, to discuss the results of their examination, the adequacy of internal accounting controls, and the quality of the financial reporting.

Roger B. Smith
Chairman

F. Alan Smith
Chief Financial Officer

STATEMENT OF CONSOLIDATED INCOME

For the Years Ended December 31, 1985, 1984 and 1983 (Dollars in Millions Except Per Share Amounts)	1985	1984	1983
Net Sales and Revenues (Notes 1 and 2)			
Manufactured products	$95,268.4	$83,699.7	$74,581.6
Computer systems services	1,103.3	190.2	—
Total Net Sales and Revenues	96,371.7	83,889.9	74,581.6
Costs and Expenses			
Cost of sales and other operating charges, exclusive of items listed below	81,654.6	70,217.9	60,718.8
Selling, general and administrative expenses	4,294.2	4,003.0	3,234.0
Depreciation of real estate, plants and equipment	2,777.9	2,663.2	2,569.7
Amortization of special tools	3,083.3	2,236.7	2,549.9
Amortization of intangible assets (Note 1)	347.3	69.1	.8
Total Costs and Expenses	92,157.3	79,189.9	69,073.2
Operating Income	4,214.4	4,700.0	5,508.4
Other income less income deductions—net (Note 6)	1,299.2	1,713.5	815.8
Interest expense (Note 1)	(892.3)	(909.2)	(1,352.7)
Income before Income Taxes	4,621.3	5,504.3	4,971.5
United States, foreign and other income taxes (Note 8)	1,630.3	1,805.1	2,223.8
Income after Income Taxes	2,991.0	3,699.2	2,747.7
Equity in earnings of nonconsolidated subsidiaries and associates (dividends received amounted to $100.5 in 1985, $706.1 in 1984 and $757.3 in 1983)	1,008.0	817.3	982.5
Net Income	3,999.0	4,516.5	3,730.2
Dividends on preferred stocks	11.6	12.5	12.9
Earnings on Common Stocks	$ 3,987.4	$ 4,504.0	$ 3,717.3
Earnings attributable to:			
$1-2/3 par value common stock	$ 3,883.6	$ 4,498.3	$ 3,717.3
Class E common stock (issued in 1984)	$ 103.8	$ 5.7	—
Average number of shares of common stocks outstanding (in millions):			
$1-2/3 par value common	316.3	315.3	313.9
Class E common (issued in 1984)*	66.5	36.3	—
Earnings Per Share Attributable to (Note 9):			
$1-2/3 par value common stock	$12.28	$14.27	$11.84
Class E common stock (issued in 1984)*	$1.57	$0.16	—

Reference should be made to notes on pages 28 through 38. Certain amounts for 1984 and 1983 have been reclassified to conform with 1985 classifications.

Earnings and earnings per share attributable to common stocks have been restated to reflect the Class E common stock amendment approved by the stockholders in December 1985.

*Adjusted to reflect the two-for-one stock split in the form of a 100% stock dividend distributed on June 10, 1985.

CONSOLIDATED BALANCE SHEET

December 31, 1985 and 1984 (Dollars in Millions Except Per Share Amounts)

ASSETS	1985	1984
Current Assets		
Cash	$ 179.1	$ 467.5
United States Government and other marketable securities and time deposits—at cost, which approximates market of $4,933.1 and $8,108.7	4,935.3	8,099.9
Total cash and marketable securities	5,114.4	8,567.4
Accounts and notes receivable (including GMAC and its subsidiaries—$4,038.7 and $3,868.5)—less allowances (Note 10)	7,282.0	7,357.9
Inventories (less allowances) (Note 1)	8,269.7	7,359.7
Contracts in process (less advances and progress payments of $2,525.3 in 1985) (Note 1)	1,453.8	—
Prepaid expenses	2,136.1	428.3
Total Current Assets	24,256.0	23,713.3
Equity in Net Assets of Nonconsolidated Subsidiaries and Associates (principally GMAC and its subsidiaries—Note 10)	5,718.5	4,603.0
Other Investments and Miscellaneous Assets—at cost (less allowances)	3,069.8	2,344.4
Common Stocks Held for the GM Incentive Program (Note 3)	190.2	144.2
Property		
Real estate, plants and equipment—at cost (Note 11)	47,267.1	39,354.1
Less accumulated depreciation (Note 11)	24,325.0	21,649.8
Net real estate, plants and equipment	22,942.1	17,704.3
Special tools—at cost (less amortization)	1,710.9	1,697.2
Total Property	24,653.0	19,401.5
Intangible Assets—at cost (less amortization) (Note 1)	5,945.3	1,938.5
Total Assets	$63,832.8	$52,144.9

LIABILITIES AND STOCKHOLDERS' EQUITY	1985	1984
Current Liabilities		
Accounts payable (principally trade)	$ 7,322.2	$ 4,743.5
Loans payable (Note 13)	2,655.2	3,086.0
United States, foreign and other income taxes payable	243.1	618.9
Accrued liabilities and deferred income taxes (Note 12)	12,078.0	8,988.2
Total Current Liabilities	22,298.5	17,436.6
Long-Term Debt (Note 13)	2,500.2	2,417.4
Capitalized Leases (including GMAC and its subsidiaries—$76.1 and $113.2)	367.0	355.5
Other Liabilities (including GMAC and its subsidiaries—$300.0 in 1985 and 1984)	7,179.8	5,971.9
Deferred Credits (including investment tax credits—$1,328.8 and $1,259.9)	1,962.6	1,749.2
Stockholders' Equity (Notes 3, 4 and 14)		
Preferred stocks ($5.00 series, $169.3 and $169.8; $3.75 series, $81.4 and $85.8)	250.7	255.6
Common stocks:		
$1-2/3 par value common (issued, 318,853,315 and 317,504,133 shares)	531.4	529.2
Class E common (issued, 66,227,137 and 29,082,382 shares)	6.6	2.9
Class H common (issued, 65,495,316 shares in 1985)	6.6	—
Capital surplus (principally additional paid-in capital)	6,667.8	3,347.8
Net income retained for use in the business	22,606.6	20,796.6
Subtotal	30,069.7	24,932.1
Accumulated foreign currency translation and other adjustments (Note 1)	(545.0)	(717.8)
Total Stockholders' Equity	29,524.7	24,214.3
Total Liabilities and Stockholders' Equity	$63,832.8	$52,144.9

Reference should be made to notes on pages 28 through 38.

STATEMENT OF CHANGES IN CONSOLIDATED FINANCIAL POSITION

For the Years Ended December 31, 1985, 1984 and 1983 (Dollars in Millions)

	1985	1984	1983
Source of Funds			
Net income	$ 3,999.0	$ 4,516.5	$ 3,730.2
Depreciation of real estate, plants and equipment	2,777.9	2,663.2	2,569.7
Amortization of special tools	3,083.3	2,236.7	2,549.9
Amortization of intangible assets (Note 1)	347.3	69.1	.8
Deferred income taxes, undistributed earnings of nonconsolidated subsidiaries and associates, etc.—net	(471.7)	(1,316.1)	645.5
Total funds provided by current operations	9,735.8	8,169.4	9,496.1
Decrease (Increase) in other working capital items	866.2	1,964.6	(1,142.0)
Increase in long-term debt	965.9	1,074.1	3,177.1
Issuances of common stocks, less repurchases of preferred stocks	2,755.5	602.2	212.0
Other—net	222.1	2,010.6	772.0
Total	14,545.5	13,820.9	12,515.2
Use of Funds			
Cash dividends paid to stockholders (Note 14)	1,616.9	1,523.7	892.2
Expenditures for real estate, plants and equipment—Operations	6,099.2	3,595.1	1,923.0
—Hughes acquisition	1,948.7	—	—
Expenditures for special tools	3,075.0	2,452.1	2,083.7
Intangible assets acquired in acquisitions (Note 1)	4,244.7	2,006.3	—
Decrease in long-term debt	883.1	1,793.9	4,491.9
Investments in nonconsolidated subsidiaries and associates	130.9	99.3	33.7
Total	17,998.5	11,470.4	9,424.5
Increase (Decrease) in cash and marketable securities	(3,453.0)	2,350.5	3,090.7
Cash and marketable securities at beginning of the year	8,567.4	6,216.9	3,126.2
Cash and marketable securities at end of the year	$ 5,114.4	$ 8,567.4	$ 6,216.9
Decrease (Increase) in Other Working Capital Items by Element			
Accounts and notes receivable	$ 75.9	($ 393.7)	($ 4,099.7)
Inventories	(910.0)	(738.2)	(437.3)
Contracts in process	(1,453.8)	—	—
Prepaid expenses	(1,707.8)	568.9	871.0
Accounts payable	2,578.7	101.2	1,041.6
Loans payable	(430.8)	1,830.8	72.7
United States, foreign and other income taxes payable	(375.8)	416.6	131.5
Accrued liabilities and deferred income taxes	3,089.8	179.0	1,278.2
Decrease (Increase) in other working capital items	$ 866.2	$ 1,964.6	($ 1,142.0)

Reference should be made to notes on pages 28 through 38.

Certain amounts for 1984 and 1983 have been reclassified to conform with 1985 classifications.

NOTE 1. Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and all domestic and foreign subsidiaries which are more than 50% owned and engaged principally in manufacturing or wholesale marketing of General Motors products as well as defense, electronics and computer services. General Motors' share of earnings or losses of nonconsolidated subsidiaries and of associates in which at least 20% of the voting securities is owned is included in consolidated income under the equity method of accounting.

Revenue Recognition

Sales are generally recorded by the Corporation when products are shipped to independent dealers. Provisions for normal dealer sales incentives and returns and allowances are made at the time of sale. Costs related to special sales incentive programs are recognized as sales deductions when these incentive programs are announced.

Certain sales under long-term contracts, primarily in the defense business, are recorded using the percentage-of-completion method of accounting. Under this method, sales are recorded equivalent to costs incurred plus a portion of the profit expected to be realized on the contract, determined based on the ratio of costs incurred to estimated total costs at completion. Profits expected to be realized on contracts are based on the Corporation's estimates of total sales value and cost at completion. These estimates are reviewed and revised periodically throughout the lives of the contracts, and adjustments to profits resulting from such revisions are recorded in the accounting period in which the revisions are made. Estimated losses on contracts are recorded in the period in which they are first identified.

Inventories

Inventories are stated generally at cost, which is not in excess of market. The cost of substantially all domestic inventories other than the inventories of GM Hughes Electronics Corporation (GMHE) is determined by the last-in, first-out (LIFO) method. If the first-in, first-out (FIFO) method of inventory valuation had been used for inventories valued at LIFO cost, such inventories would have been about $2,196.3 million higher at December 31, 1985 and $2,183.0 million higher at December 31, 1984. As a result of decreases in LIFO eligible U.S. inventories, certain LIFO inventory quantities carried at lower costs prevailing in prior years, as compared with the costs of current purchases, were liquidated in 1985. These inventory adjustments favorably affected income before income taxes by approximately $20.9 million. The cost of inventories outside the United States and the inventories of GMHE is determined generally by FIFO or average cost methods.

Major Classes of Inventories (Dollars in Millions)	1985	1984
Productive material, work in process and supplies	$5,591.5	$5,264.2
Finished product, service parts, etc.	2,678.2	2,095.5
Total	$8,269.7	$7,359.7

Contracts in Process

Contracts in process are stated at costs incurred plus estimated profit less amounts billed to customers and advances and progress payments received. Engineering, tooling, manufacturing and applicable overhead costs, including administrative, research and development and selling expenses are charged to cost of sales when they are incurred. Contracts in process include amounts relating to contracts with long production cycles. Although shown as a current asset, approximately $98.6 million in 1985 is not expected to be collected within one year. Under certain contracts with the United States Government, progress payments are received based on costs incurred on the respective contracts. Title to the inventories related to such contracts (included in contracts in process) vests with the United States Government.

Depreciation and Amortization

Depreciation is provided on groups of property using, with minor exceptions, an accelerated method which accumulates depreciation of approximately two-thirds of the depreciable cost during the first half of the estimated lives of the property.

Expenditures for special tools are amortized over short periods of time because the utility value of the tools is radically affected by frequent changes in the design of the functional components and appearance of the product. Amortization is applied directly to the asset account. Replacement of special tools for reasons other than changes in products is charged directly to cost of sales.

Income Taxes

Investment tax credits are generally deferred and amortized over the lives of the related assets (the "deferral method"). In 1985, Electronic Data Systems Corporation changed its method of accounting for investment tax credits from the flow-through method to the deferral method used by the Corporation. The effect of the change was to reduce 1985 earnings attributable to Class E common stock by $0.41 per share and defer the recognition to earnings attibutable to Class E common stock in future years. The tax effects of timing differences between pretax accounting income and taxable income (principally related to depreciation, sales and product allowances, vehicle instalment sales, and benefit plans expense) are deferred. Provisions are made for estimated United States and foreign taxes, less available tax credits and deductions, which may be incurred on remittance of the Corporation's share of subsidiaries' undistributed earnings less those deemed to be permanently reinvested. Possible taxes beyond those provided would not be material.

Pension Program

The Corporation and its subsidiaries have several pension plans covering substantially all of their employes. Benefits under the plans are generally related to an employe's length of service, wages and salaries, and, where applicable, contributions. The costs of these plans are determined on the basis of actuarial cost methods and include amortization of prior service cost over periods not in excess of 30 years, generally from the later of October 1, 1979 or the date such costs are established. With the exception of certain Canadian and overseas subsidiaries, pension costs accrued are funded within the limitations set by the Employee Retirement Income Security Act.

Product Related Expenses

Expenditures for advertising and sales promotion and for other product related expenses are charged to costs and expenses as incurred; provisions for estimated costs related to product warranty are made at the time the products are sold. Expenditures for research and development are charged to expenses as incurred and amounted to $3,625.2 million in 1985, $3,075.8 million in 1984 and $2,602.2 million in 1983.

Interest Cost

Total interest cost incurred in 1985, 1984 and 1983 amounted to $944.9 million, $932.5 million and $1,401.8 million, respectively, of which $52.6 million, $23.3 million and $49.1 million, related to certain real estate, plants and equipment acquired in those years, was capitalized.

Foreign Currency Translation

As required by the Financial Accounting Standards Board, effective January 1, 1983, the Corporation implemented Statement of Financial Accounting Standards (SFAS) No. 52, Foreign Currency Translation. Under SFAS No. 52, all assets and liabilities of operations outside the United States, except for operations in highly inflationary economies (principally in Latin America) or those that are highly integrated with operations of the Corporation (principally in Canada), are translated into U.S. dollars using current exchange rates, and the effects of foreign currency translation adjustments are deferred and included as a component of stockholders' equity. For operations in highly inflationary economies or that are highly integrated, foreign currency translation adjustments are included in income. The effect of adopting SFAS No. 52 was to reduce net income for 1983 by about $422.5 million ($1.35 per share of $1-2/3 par value common stock). Exchange and translation gains (losses) included in net income in 1985, 1984 and 1983 amounted to $54.1 million, ($114.8) million and ($52.3) million, respectively.

(continued)

NOTE 1. (concluded)

Acquisitions

Effective December 31, 1985, the Corporation acquired Hughes Aircraft Company (Hughes) and its subsidiaries for $2.7 billion in cash and cash equivalents and 50 million shares of General Motors Class H common stock having an estimated total value of $2,561.9 million. Hughes is one of the leading defense electronics firms in the world and specializes in high-technology electronics for military, scientific and commercial use. In addition, the Corporation has contingently agreed to pay the Howard Hughes Medical Institute (Institute) on December 31, 1989, for each share of Class H common stock issued in connection with the acquisition and held by the Institute on that date, the amount, if any, by which the market value per share of Class H common stock is below $60; provided that such payment shall not be greater than $40 per share. Any payment required under this contingency provision will be charged to capital surplus.

The acquisition has been accounted for as a purchase. In view of the current policy of the Department of Defense and a recent decision of the Armed Services Board of Contract Appeals, there is substantial uncertainty as to the recoverability through contracts with the U.S. Government of any increase in the book values of the net assets of a defense contractor as a result of a business combination accounted for as a purchase. Accordingly, the amounts assigned to the tangible net assets of Hughes do not differ materially from the historical net book values. The purchase price exceeded the net book value of Hughes by $4,244.7 million, which was assigned as follows: $500.0 million to patents and related technology, $125.0 million to the future economic benefits to the Corporation of the Hughes Long-Term Incentive Plan, and $3,619.7 million to other intangible assets. The amounts assigned to the various intangible asset categories are to be amortized on a straight-line basis; patents and related technology over 15 years, the future economic benefits of the Hughes Long-Term Incentive Plan over 5 years and other intangible assets over 40 years. Amortization is to be applied directly to the asset accounts. For the purpose of determining earnings per share and amounts available for dividends on common stocks, the amortization of these intangible assets is to be charged against earnings attributable to $1-2/3 par value common stock.

Because the acquisition was made effective December 31, 1985, the Statement of Consolidated Income does not include any operations of Hughes for 1985. Pro forma results of operations as though the acquisition of Hughes had been effective at the beginning of 1985 and 1984 are as follows:

	Pro Forma	
(Dollars in Millions)	1985	1984
Net Sales and Revenues	$102,537.1	$89,706.2
Net Income	$ 4,023.5	$ 4,476.4
Earnings Per Share Attributable to:		
$1-2/3 par value common stock	$11.89	$13.61
Class E common stock	$ 1.57	$ 0.16
Class H common stock	$ 2.44	$ 2.59

On October 18, 1984, the Corporation acquired Electronic Data Systems Corporation (EDS) and its subsidiaries, whose activities include the design of large-scale data processing systems and the operation of data centers and communications networks, for $2,501.9 million. The acquisition was consummated through an offer to exchange EDS common stock for either (a) $44 in cash or (b) $35.20 in cash plus two-tenths of a share of Class E common stock plus a nontransferable contingent promissory note issued by GM. Certain EDS stockholders elected to receive fluctuating rate GM notes due in 1985 in lieu of cash. The nontransferable contingent promissory note is payable seven years after closing in an amount equal to .2 times the excess of $62.50 (post-split) over the market price of the Class E common stock at the maturity date of the note. Holders may tender their notes for prepayment at discounted amounts beginning five years after closing. If the market price of Class E common stock at the maturity date of the notes were to equal the market price at December 31, 1985, $40.88 a share, the aggregate additional consideration would be $483 million. Any additional consideration will be charged to goodwill and amortized over the remaining life of that asset.

The acquisition was accounted for as a purchase. The purchase price in excess of the net book value of EDS, $2,179.5 million, was assigned principally to existing customer contracts, $1,069.9 million, computer software programs developed by EDS, $646.2 million, and other intangible assets, including goodwill, $290.2 million. The cost assigned to these assets is being amortized on a straight-line basis over five years for computer software programs, about seven years for customer contracts, ten years for goodwill and varying periods for the remainder. Amortization is applied directly to the asset accounts.

The Statement of Consolidated Income includes the operations of EDS since October 18, 1984. For the purpose of determining earnings per share and amounts available for dividends on common stocks, the amortization of these assets is charged against earnings attributable to $1-2/3 par value common stock. The effect on the 1985 and 1984 earnings attributable to $1-2/3 par value common stock was a net charge of $241.0 million and $31.7 million, respectively, consisting of the amortization of the intangible and other assets arising from the acquisition less related income tax effects, the profit on intercompany transactions and the earnings of EDS attributable to $1-2/3 par value common stock. Earnings per share of $1-2/3 par value common stock would have been reduced by $0.66 in 1984 and $0.83 in 1983 if the acquisition had been consummated at the beginning of those years.

NOTE 2. Net Sales and Revenues

Net sales and revenues includes sales to:

(Dollars in Millions)	1985	1984	1983
Nonconsolidated subsidiaries and associates	$ 289.1	$ 121.6	$ 111.2
Dealerships operating under dealership assistance plans	$2,090.1	$1,917.4	$1,634.3

Unrealized intercompany profits on sales to nonconsolidated subsidiaries and to associates are deferred.

NOTE 3. General Motors Incentive Program

The General Motors Incentive Program consists of the General Motors Bonus Plan, the General Motors Stock Option Plans and the General Motors Performance Achievement Plan. The By-Laws provide that the Plans in which directors or officers of the Corporation may participate shall be presented for action at a stockholders' meeting at least once in every five years. The Program was last approved by stockholders at the 1982 Annual Meeting, while amendments to the Stock Option Plans were approved at the 1984 Annual Meeting and in conjunction with the acquisition of Hughes.

The Corporation maintains a reserve for purposes of the Bonus Plan. Under the current Plan provisions, for any year a maximum credit may be made to the reserve equal to the amount which the independent public accountants of the Corporation determine to be 8% of the net earnings which exceed $1 billion, but not in excess of the amount paid out as dividends on the common stock during the year. The Incentive and Compensation Committee may, at its discretion, direct that for any year an amount less than the maximum amount available under the formula be credited. Further the Committee may, but is not obligated to, award as bonus in any year the full amount available in the reserve for such awards, or it may award less than the amount available. Bonus awards under the Bonus Plan and such other amounts arising out of the operation of the Bonus Plan as the Committee may determine are charged to the reserve.

The Incentive and Compensation Committee has determined that the credit for 1985 to the reserve shall be $260.7 million. The credit so determined was, as required by the Bonus Plan, less than the amount distributed as dividends to holders of common stock in 1985. On February 3, 1986, the Committee granted awards to 5,749 employes of $218.6 mil-

(continued)

NOTE 3. (continued)

lion. These awards consisted of 1,486,771 shares of $1-2/3 par value common stock valued at an average of $72.50 per share for award purposes in accordance with the Bonus Plan, and $110.8 million in cash. The balance of $42.1 million was made available in the reserve for future awards. A credit of $269.2 million was made to the reserve in 1984, an amount $35.0 million less than the maximum which could have been credited under the formula; actual 1984 awards totaled $224.1 million. A credit of $180.0 million was made to the Bonus Plan reserve in 1983. This was less than the maximum which could have been credited to the reserve. Substantially all of the credit was awarded to participants for that year. No credits or awards were made for 1982 and 1981.

Under the Performance Achievement Plan approved by stockholders in 1982, the Committee established performance achievement levels for the initial three-year phase-in period ending in 1984 and for the first five-year period ending in 1986. In 1984, the Committee established performance achievement levels for a new five-year period ending in 1988. Under the Plan, the annual average of the aggregate final awards relating to the aggregate target awards granted in the years 1982 through 1986 shall not exceed $60 million. Payment of these awards is contingent upon achievement of earnings in relation to average worldwide industry sales volume targets over the term of the performance period related to each grant. In the future, it is anticipated that new grants will be made every two years. Employes selected to participate in the Plan are granted target awards payable in cash and/or $1-2/3 par value common stock which are, in general, expressed as a percentage of the participant's salary at the beginning of the performance period. Accruals of $12.2 million and $9.3 million were made in 1985 to recognize progress toward achieving the 1982-1986 and 1984-1988 earnings targets, respectively. Awards for the 1982-1984 grant, representing an average of $9.3 million for the three-year period, were paid in early 1985. The awards for the 1982-1986 and 1984-1988 periods will not be paid until 1987 and 1989, respectively, with the ultimate amounts dependent on actual performance. Accruals of $12.3 million and $20.9 million were made in 1984 to recognize progress toward achieving the three-year and five-year earnings targets, respectively. Another $15.5 million and $11.0 million were accrued for these two periods in 1983. There was no accrual for the Plan in 1982.

Under the provisions of the Bonus Plan, participants receive their awards in instalments in as many as three years. Performance Achievement Plan awards are to be paid as soon as is practicable following completion of the performance period. If participants in the Plans fail to meet conditions precedent to receiving undelivered instalments of bonus and performance achievement awards (and contingent credits related to the Stock Option Plan prior to 1977), the amount of any such instalments is credited to income.

On April 2, 1984, October 1, 1984 and October 7, 1985, the Committee granted Stock Appreciation Rights (SARs) to certain officers of the Corporation in conjunction with incentive and nonqualified stock options granted. SARs provide officers with the right to receive payment equal in value to the appreciation in the Corporation's common stock over the option exercise price of the shares under option. Such payment would be made in lieu of the exercise of the related option, with the corresponding options cancelled and not available for regrant under the Plan. SARs are exercisable at such time as determined by the Committee, but only upon surrender of the related option and only to the extent that the related option is exercisable. SARs expire no later than the date of the underlying option, are not transferable under any circumstances and may be exercised only when the market value of the stock subject to the related option exceeds the applicable option price.

The utilization of SARs requires an accrual each year for the appreciation on the rights expected to be exercised. The amount of such accrual is dependent upon the amount, if any, by which the fair market value of common stock exceeds the related option price and changes in fair market value during the period. An accrual of ($2.7) million was made for SARs in 1985 and $13.9 million in 1984.

Changes during 1983, 1984 and 1985 in the status of options granted under the Stock Option Plans are shown in the following table. The option prices are 100% of the average of the highest and lowest sales prices of $1-2/3 par value common stock on the dates the options were granted, as reported on the Composite Tape of transactions on all major exchanges and nonexchange markets in the U.S. for options granted in 1976 and subsequent years. Incentive stock options expire ten years from date of grant. Nonqualified stock options granted prior to 1982 expire ten years from date of grant, and nonqualified stock options granted in 1982 and thereafter expire ten years and two days from date of grant. Options are subject to earlier termination under certain conditions.

	Years Granted	Option Prices	Shares Under Option
Outstanding at Jan. 1, 1983	1973-1982	$38.25-$73.38	3,252,139
Granted	1983	72.88	586,820
Exercised	1974-1982	38.25-66.57	(627,318)
Terminated	1973-1983	38.25-72.88	(111,347)
Outstanding at Dec. 31, 1983	1974-1983	38.25-72.88	3,100,294
Granted	1984	77.19	615,355
Exercised: Options	1974-1983	38.25-72.88	(794,828)
SARs	1984	38.25-72.88	(231,539)
Terminated	1974-1983	38.25-72.88	(48,039)
Outstanding at Dec. 31, 1984	1976-1984	38.25-77.19	2,641,243
Granted	1985	67.94	1,132,605
Exercised: Options	1976-1983	38.25-72.88	(365,798)
SARs	1977-1983	38.25-72.88	(35,970)
Terminated	1976-1985	38.25-72.88	(30,692)
Outstanding at Dec. 31, 1985	1976-1985	38.25-77.19	3,341,388

The Corporation intends to deliver newly issued $1-2/3 par value common stock upon the exercise of any of the stock options. The maximum number of shares for which additional options might be granted under the Plans was 6,760,945 at January 1, 1983, 6,195,185 at December 31, 1983, 5,595,283 at December 31, 1984 and 4,482,229 at December 31, 1985. Options outstanding at December 31, 1985 consisted of:

	Years Granted	Option Prices	Shares Under Option
1972 Plan	1976	$65.19	29,766
1977 Plan	1977	66.57	111,663
	1978	63.75	128,385
	1979	59.50	136,648
	1980	53.25	152,504
	1981	50.00	144,649
	1982	38.25	132,328
1982 Plan	1982	46.50	232,463
	1983	72.88	539,747
	1984	77.19	602,715
	1985	67.94	1,130,520
Total $1-2/3 Par Value Shares Under Option			3,341,388

In connection with the 1985 acquisition of Hughes, the General Motors stockholders approved certain modifications to the Stock Option Plans to permit adjustments of options outstanding to reflect dividends of one class of common stock to holders of another class of common stock. As modified, the Plans permit adjustments to the shares issuable on exercise of the options outstanding to include the shares that would have been issued in the dividend if the shares under option had been outstanding at the dividend record date. Stock Appreciation Rights may be similarly adjusted.

On December 2, 1985, the Committee approved the related Stock

(continued)

NOTE 3. (concluded)

Option Plan amendment, subject to a favorable Internal Revenue Service ruling, and the adjustment of the shares under option to reflect the December 1984 dividend of Class E common stock and the December 1985 dividend of Class H common stock. The adjustment will have the effect of replacing options on $1-2/3 par value common shares as of the close of business on the record date for each dividend with options on units comprised of $1-2/3 par value common shares and the applicable Class E common and/or Class H common shares attributable to the dividends. The number of Class E common and Class H common shares to be included in such units are estimated at 260,000 and 170,000, respectively.

Common stocks held for the Incentive Program are stated substantially at cost and used exclusively for payment of Program liabilities.

(Dollars in Millions)	1985		1984	
	Shares	Amount	Shares	Amount
Bal. at Jan. 1	2,072,694	$144.2	828,273	$ 56.3
Acquired: $1-2/3	1,629,809	118.7	1,869,391	133.1
Class E*	29,427	1.0	38,268	.7
Delivered: $1-2/3	(1,023,688)	(73.0)	(663,238)	(45.9)
Class E*	(38,578)	(.7)	—	—
Bal. at Dec. 31: $1-2/3	2,640,547	189.2	2,034,426	143.5
Class E*	29,117	1.0	38,268	.7
Total	2,669,664	$190.2	2,072,694	$144.2

*Post-split basis.

NOTE 4. EDS Incentive Plans

At its meeting on December 3, 1984, the GM Board of Directors approved and adopted the 1984 Electronic Data Systems Corporation Stock Incentive Plan in accordance with stockholder approval obtained in connection with GM's acquisition of EDS. Under this Plan, which covers up to 40 million shares (post-split) of Class E common stock during the 10-year life of the Plan, shares, rights or options to acquire shares, which may be subject to restrictions, may be granted or sold.

In 1985, the incentive and compensation committee of the EDS board of directors granted the right to purchase a total of 6,219,186 shares of Class E common stock at a price of $0.10 per share to key employes under the provisions of the 1984 Plan. The Class E shares sold under the provisions of the 1984 Plan are subject to restrictions and will vest over a ten-year period from the date of grant. An expense of $13.2 million was recorded for these awards in 1985.

In 1985, the committee also granted incentive stock options under the provisions of the 1984 Plan. The option price is 100% of the average of the highest and lowest sales prices of Class E common stock on the date the options were granted, as reported on the Composite Tape of transactions on all major exchanges and nonexchange markets in the U.S. These incentive stock options expire six years from date of grant and are subject to earlier termination under certain conditions.

	Year Granted	Option Price	Shares Under Option
Granted	1985	$35.82	4,082,500
Terminated	1985	35.82	(38,300)
Outstanding at Dec. 31, 1985	1985	$35.82	4,044,200

With regard to the unvested shares under the EDS 1977 Stock Incentive Plan, as a part of the acquisition agreement the 2,270,160 unvested shares of EDS common stock issued under the 1977 Plan were converted at the date of the acquisition into an equal number of unvested shares of Class E common stock (4,540,320 shares on a post-split basis). In addition, EDS employes holding unvested shares under the 1977 Plan may receive deferred compensation payments under certain conditions. These payments are intended to provide each participant with the same after Federal income tax proceeds that would have been realized after seven years if the employe had received an amount equal to the product of (a) the excess of $62.50 (post-split) over the then average market price per share of Class E common stock and (b) one-half of the number of unvested shares of Class E common stock received by the employe, and had been eligible for long-term capital gain income tax treatment.

EDS has a bonus plan under which awards are granted to key executives and employes. The amount accrued in 1985 was $16.9 million. The amount to be awarded and the individual awards will be determined at a later date.

NOTE 5. Hughes Incentive Plans

Prior to the acquisition of Hughes, the Hughes board of directors adopted the Hughes Long-Term Incentive Plan (the "LTIP"). The LTIP was developed by the Institute and Hughes to provide incentives to employes to remain with Hughes, a factor considered significant in preserving the value of Hughes for a buyer. The LTIP provided approximately 1,000 key scientists, engineers and managers of Hughes with restricted cash units ("Units"), which entitle participants to receive payments from a trust established and funded pursuant to the terms of the LTIP (the "Trust"). Such payments will be paid in equal annual instalments at the end of the third, fourth and fifth years following the date of award. Forfeiture occurs if the participant is discharged for cause or, other than for good reason, voluntarily terminates employment with Hughes within five years of the date of grant and prior to normal retirement. The value of a Unit at any time is its pro rata portion of the value of the Trust's assets. The LTIP provided that, upon the sale of Hughes, the Trust was to be funded by Hughes with $250 million. Such funds were obtained by Hughes through a combination of short-term notes payable to banks and long-term debt, and Hughes incurred a nonrecurring preacquisition charge of about $125 million (net of the related income tax effects).

Hughes maintains supplemental compensation plans under which awards are currently granted to officers and other key employes. The aggregate amount and the individual awards are determined by the Hughes board of directors, subject to certain limitations based upon net income.

NOTE 6. Other Income Less Income Deductions

(Dollars in Millions)	1985	1984	1983
Other income: Interest	$1,328.3	$1,466.8	$719.5
Other	143.6	302.4	161.7*
Income deductions	(172.7)	(55.7)	(65.4)
Net	$1,299.2	$1,713.5	$815.8

*Includes a gain of $13.9 million from early retirements of long-term debt.

NOTE 7. Pension Program and Postemployment Benefits

Total pension expense of the Corporation and its consolidated subsidiaries amounted to $1,674.8 million in 1985, $1,618.4 million in 1984, and $1,714.2 million in 1983. Of the 1985 expense, $22.3 million was attributable to EDS. For purposes of determining pension expense, the Corporation uses a variety of assumed rates of return on pension funds in accordance with local practice and regulations, which rates average approximately 7%. The following table compares accumulated plan benefits and plan net assets for the Corporation's defined benefit plans in the

(continued)

NOTE 7. (concluded)

United States, other than for EDS and Hughes, as of October 1 (the plans' anniversary date):

(Dollars in Millions)	1985	1984
Actuarial present value of accumulated plan benefits:		
Vested	$21,982.1	$20,216.2
Nonvested	3,351.9	1,814.2
Total	$25,334.0	$22,030.4
Net assets available for benefits:		
Trustees	$20,033.0	$16,245.5
Insurance companies	3,276.3	3,211.8
Total	$23,309.3	$19,457.3

The assumed rates of return used in determining the actuarial present value of accumulated plan benefits shown in the table above were based upon those published by the Pension Benefit Guaranty Corporation, a public corporation established under the Employee Retirement Income Security Act (ERISA), adjusted to reflect a fixed income management technique under which an immunized rate is being earned on certain pension fund assets. Such rates averaged approximately 8¾% for 1985 and approximately 10¼% for 1984. The effect of the immunized rate adjustment was to reduce the unfunded liability by $732.3 million in 1985 and $663.5 million in 1984.

The EDS retirement plan provides for pension payments to its eligible employes upon retirement. The market value of the net assets available for benefits under this plan exceeded the actuarial present value of accumulated plan benefits by $58.5 million in 1985 and $29.4 million in 1984.

Hughes retirement plans cover substantially all of its employes and provide for monthly pension payments to eligible employes upon retirement. As of the most recent actuarial valuation dates, January 1, 1985 and 1984, a comparison of Hughes accumulated plan benefits and net assets available for benefits is as follows:

(Dollars in Millions)	1985	1984
Actuarial present value of accumulated plan benefits:		
Vested	$1,386.4	$1,189.6
Nonvested	22.0	64.7
Total	$1,408.4	$1,254.3
Net assets available for benefits, at market value	$2,176.4	$2,097.7

The weighted average rate of return used in determining the actuarial present value of accumulated plan benefits shown above was 8.5% in 1985 and 8.25% in 1984.

The pension plans of subsidiaries outside the United States are not required to report to governmental agencies pursuant to ERISA, and the actuarial present value of accumulated benefits for these plans has not been determined in the manner calculated and shown above. The total of these plans' pension funds and balance sheet accruals, less pension prepayments and deferred charges, exceeded the actuarially computed value of vested benefits by approximately $785 million at December 31, 1985 and $340 million at December 31, 1984.

In addition to providing pension benefits, the Corporation and certain of its subsidiaries provide certain health care and life insurance benefits for retired employes. Substantially all of the Corporation's employes, including employes in some foreign countries, may become eligible for those benefits if they reach normal retirement age while working for the Corporation. The Corporation recognizes the cost of providing those benefits by expensing the cost as incurred. The cost of such benefits amounted to $836.5 million in 1985 and $806.1 million in 1984.

NOTE 8. United States, Foreign and Other Income Taxes

(Dollars in Millions)	1985	1984	1983
Taxes estimated to be payable currently:			
United States Federal	$1,465.4	$1,151.7	$ 254.4
Foreign	287.3	662.5	146.0
State and local	147.9	140.1	126.0
Total	1,900.6	1,954.3	526.4
Taxes deferred—net:			
United States Federal	(386.7)	8.3	1,241.3
Foreign	54.9	(170.6)	192.7
State and local	(4.6)	32.1	142.0
Total	(336.4)	(130.2)	1,576.0
Investment tax credits deferred—net:			
United States Federal	49.0	(15.1)	47.7
Foreign	17.1	(3.9)	73.7
Total	66.1	(19.0)	121.4
Total taxes	$1,630.3	$1,805.1	$2,223.8

Investment tax credits entering into the determination of taxes estimated to be payable currently amounted to $427.6 million in 1985, $311.6 million in 1984 and $406.2 million in 1983.

The deferred taxes (credit) for timing differences consisted principally of the following: 1985—$269.0 million for depreciation, ($608.1) million for sales and product allowances and $125.1 million for pollution control bonds; 1984—$762.6 million for benefit plans expense, ($305.5) million for sales and product allowances, $387.6 million for vehicle instalment sales, ($240.3) million for interest, ($125.1) million for pollution control bonds and ($435.7) million for the domestic international sales corporation (DISC); and 1983—$519.2 million for benefit plans expense, ($438.0) million for sales and product allowances, $379.5 million for vehicle instalment sales and $707.5 million for depreciation.

Income before income taxes included the following components:

(Dollars in Millions)	1985	1984	1983
Domestic income	$3,690.5	$4,513.6	$4,387.6
Foreign income	930.8	990.7	583.9
Total	$4,621.3	$5,504.3	$4,971.5

The consolidated income tax was different than the amount computed at the United States statutory income tax rate for the reasons set forth in the table below.

(Dollars in Millions)	1985	1984	1983
Expected tax at U.S. statutory income tax rate	$2,125.8	$2,532.0	$2,286.9
Investment tax credits amortized	(361.5)	(330.6)	(284.8)
Foreign tax rate differential	(7.2)	135.9	43.9
State and local income taxes	77.4	93.0	144.7
Deferred income tax reversal on the DISC	—	(421.3)	—
Taxes on undistributed earnings of subsidiaries	—	(112.2)	54.4
Research and development credit	(147.0)	(73.5)	(18.0)
Other adjustments	(57.2)	(18.2)	(3.3)
Consolidated income tax	$1,630.3	$1,805.1	$2,223.8

NOTE 9. Earnings Per Share Attributable to and Dividends on Common Stocks

Earnings per share attributable to common stocks have been determined based on the relative rights of $1-2/3 par value common, Class E common and Class H common stocks to participate in dividends. The effect on earnings per share resulting from the assumed exercise of outstanding options and delivery of bonus awards and contingent credits is not material.

Dividends on the $1-2/3 par value common stock are to be declared out of the earnings of GM and its subsidiaries, excluding the Available Separate Consolidated Net Income of EDS and GMHE.

In connection with the authorization of the Class H common stock issued in the acquisition of Hughes, the stockholders of the Corporation approved certain amendments to the General Motors Certificate of Incorporation to redefine the earnings available for payment of dividends on Class E common stock. As a result of the amendment, earnings attributable to Class E common stock are determined and reported on a basis consistent with the earnings that the GM Board of Directors had previously treated as available for payment of dividends on that class. Because the amendment was retroactive to the date that the Class E common shares were first issued, previously reported earnings and earnings per share attributable to common stocks have been restated. The amendment had the effect of increasing earnings per share attributable to $1-2/3 par value common stock by $0.27 per share in 1985 and $0.05 per share in 1984.

Dividends on the Class E common stock are to be declared out of the Available Separate Consolidated Net Income of EDS earned since the acquisition of EDS by GM. The Available Separate Consolidated Net Income of EDS is determined quarterly and is equal to the separate consolidated net income of EDS, excluding the effects of purchase accounting adjustments arising from the acquisition of EDS, multiplied by a fraction, the numerator of which is the weighted average number of shares of Class E common stock outstanding during the period and the denominator of which is currently 121.9 million shares.

Dividends on the Class H common stock are to be declared out of the Available Separate Consolidated Net Income of GMHE earned after December 31, 1985, the date the Hughes acquisition was made effective. The Available Separate Consolidated Net Income of GMHE will be determined quarterly and will be equal to the separate consolidated net income of GMHE, excluding the effects of purchase accounting adjustments arising from the acquisition of Hughes, multiplied by a fraction, the numerator of which is the weighted average number of shares of Class H common stock outstanding during the period and the denominator of which initially will be 200 million shares.

The denominators used in determining the Available Separate Consolidated Net Income of EDS and GMHE will be adjusted as deemed appropriate by the Board of Directors to reflect subdivisions or combinations of the Class E common and Class H common stocks and to reflect certain transfers of capital to or from EDS and GMHE.

Dividends may be paid on common stocks only when, as and if declared by the Board of Directors in its sole discretion. The Board's policy with respect to $1-2/3 par value common stock is to distribute from current earnings such amounts as the outlook and the indicated capital needs of the business permit. The current policy of the Board of Directors with respect to the Class E common and Class H common stocks is to pay cash dividends approximately equal to 25% of the Available Separate Consolidated Net Income of EDS and GMHE, respectively, for the prior year.

NOTE 10. General Motors Acceptance Corporation and Subsidiaries

Condensed Consolidated Balance Sheet (Dollars in Millions)	1985	1984
Cash and investments in securities	$ 2,787.7	$ 2,100.1
Finance receivables—net (including GM and affiliates—$300.0 in 1985 and 1984)	66,025.7	50,051.5
Other assets	6,634.8	2,291.5
Total Assets	$75,448.2	$54,443.1
Short-term debt	$42,642.9	$27,629.5
Accounts payable and other liabilities (including GM and affiliates—$4,038.7 and $3,868.5)	8,548.0	6,931.4
Long-term debt	19,110.5	15,715.5
Stockholder's equity	5,146.8	4,166.7
Total Liabilities and Stockholder's Equity	$75,448.2	$54,443.1

Condensed Statement of Consolidated Income (Dollars in Millions)	1985	1984	1983
Gross Revenue	$9,755.8	$8,098.6	$7,391.1
Interest and discount	5,121.8	4,772.4	4,099.1
Other expenses	3,613.0	2,541.4	2,290.0
Total Expenses	8,734.8	7,313.8	6,389.1
Net Income	$1,021.0	$ 784.8	$1,002.0

Interest is paid to General Motors on settlements of wholesale financing of product sales which are made beyond transit time.

NOTE 11. Real Estate, Plants and Equipment and Accumulated Depreciation

(Dollars in Millions)	1985	1984
Real estate, plants and equipment (Note 13):		
Land	$ 599.2	$ 414.9
Land improvements	1,297.8	1,170.0
Leasehold improvements—less amortization	79.4	59.7
Buildings	9,545.6	8,162.6
Machinery and equipment	29,580.9	26,269.9
Furniture and office equipment	1,407.8	752.5
Satellites and related facilities	270.0	—
Capitalized leases	968.0	814.6
Construction in progress	3,518.4	1,709.9
Total	$47,267.1	$39,354.1
Accumulated depreciation:		
Land improvements	$ 759.9	$ 665.5
Buildings	4,453.6	4,120.3
Machinery and equipment	18,149.5	16,207.9
Furniture and office equipment	479.4	289.8
Capitalized leases	482.6	366.3
Total	$24,325.0	$21,649.8

Gross property increased in 1985 by $1,478.1 million as a result of foreign currency translation adjustments. Net book value increased $509.5 million because of such adjustments.

NOTE 12. Accrued Liabilities and Deferred Income Taxes

(Dollars in Millions)	1985	1984
Taxes, other than income taxes	$ 1,158.3	$ 990.0
Payrolls	2,353.5	1,764.3
Employe benefits	571.1	630.4
Dealer and customer allowances, claims, discounts, etc.	4,659.7	3,896.7
Other, including deferred income taxes	3,335.4	1,706.8
Total	$12,078.0	$8,988.2

NOTE 13. Long-Term Debt

(Dollars in Millions)	Interest Rate	Maturity	1985	1984
GM:				
U.S. dollars:				
Notes	10.00 %		$ —	$ 50.0
Notes	12.20	1987-88	150.0	200.0
Notes	10.00	1991	250.0	250.0
Debentures	8.625	2005	102.4	102.4
Other	4.76	1987-2001	57.8	69.1
Other currencies	7.41	1987	21.9	17.7
Consolidated subsidiaries:				
U.S. dollars	9.77	1987-2011	987.1	960.6
Spanish pesetas	12.58	1987-91	629.1	527.8
German marks	6.27	1987-96	70.9	143.5
Austrian schillings	5.90	1987-89	84.1	17.6
Other currencies	Various	1987-95	241.3	182.6
Total			2,594.6	2,521.3
Less unamortized discount (principally on 10% notes due 1991)			94.4	103.9
Total			$2,500.2	$2,417.4

At year-end 1985, the Corporation and its consolidated subsidiaries had unused short-term credit lines of approximately $2.6 billion and unused long-term credit agreements of approximately $1.5 billion. Long-term debt at December 31, 1985 and 1984 included approximately $702 million and $624 million, respectively, of short-term obligations which are intended to be renewed or refinanced under long-term credit agreements. Long-term debt (including current portion) bore interest at a weighted average rate of approximately 12.5% at December 31, 1985 and 12.3% at December 31, 1984.

In 1981, the Corporation and a subsidiary arranged a private financing of $500 million in 10% notes due 1991. The difference between the 10% stated interest rate and the 14.7% effective rate reflects the discount which is being amortized over the lives of the notes. An option to acquire certain real estate in 1991 was also granted. The option holder may deliver the notes in payment for the real estate.

Under the sinking fund provisions of the trust indenture for the Corporation's 8⅝% Debentures due 2005, the Corporation is to make annual sinking fund payments of $3.0 million in 2002 and $11.8 million in each of the years 2003 and 2004.

Maturities of long-term debt in the years 1986 through 1990 are (in millions) $446.9 (included in loans payable at December 31, 1985), $540.5, $421.1, $228.4 and $152.7. Loans payable at December 31, 1984 included the current portion of long-term debt in the amount of $735.5 million.

NOTE 14. Stockholders' Equity

The preferred stock is subject to redemption at the option of the Board of Directors on any dividend date on not less than thirty days' notice at the redemption prices stated in the table on the next page plus accrued dividends.

Holders of $1-2/3 par value common stock, Class E common stock and Class H common stock are entitled to one, one-quarter and one-half vote per share, respectively, on all matters submitted to the stockholders for a vote. The liquidation rights of common stockholders are based on per share liquidation units of the various classes and are subject to certain adjustments if outstanding common stock is subdivided, by stock split or otherwise, or if shares of one class of common stock are issued as a dividend to holders of another class of common stock. At December 31, 1985, each share of $1-2/3 par value common, Class E common and Class H common stock was entitled to a liquidation unit of approximately one, one-quarter and one-half, respectively.

After December 31, 1994 or December 31, 1995, the Board of Directors may exchange $1-2/3 par value common stock for Class E common stock or for Class H common stock, respectively, if the Board has declared and paid certain minimum cash dividends during each of the five years preceding the exchange. If GM should sell, liquidate, or otherwise dispose of EDS or Hughes (or substantially all of the other business of GMHE), the Corporation will be required to exchange $1-2/3 par value common stock for Class E common or Class H common stock, respectively. In the event of any exchange, the Class E common or Class H common stockholders will receive $1-2/3 par value common stock having a market value at the time of the exchange equal to 120% of the market value of the Class E common or Class H common stock exchanged.

The Certificate of Incorporation provides that no cash dividends may be paid on the $1-2/3 par value common stock, Class E common stock, Class H common stock or any series of preference stock so long as current assets (excluding prepaid expenses) in excess of current liabilities of the Corporation are less than $75 per share of outstanding preferred stock. Such current assets (with inventories calculated on the FIFO basis) in excess of current liabilities were greater than $75 in respect of each share of outstanding preferred stock at December 31, 1985 and 1984.

The equity of the Corporation and its consolidated subsidiaries in the accumulated net income or loss, since acquisition, of associates has been included in net income retained for use in the business.

At December 31, 1985, consolidated net income retained for use in the business attributable to $1-2/3 par value common and Class E common stocks was $22,510.7 million and $95.9 million, respectively.

(continued)

NOTE 14. (continued)

(Dollars in Millions Except Per Share Amounts)	1985	1984	1983
Capital Stock:			
Preferred Stock, without par value, cumulative dividends (authorized, 6,000,000 shares):			
$5.00 series, stated value $100 per share, redeemable at Corporation option at $120 per share:			
Outstanding at beginning of the year (1,698,294 shares in 1985 and 1,835,644 in 1984 and 1983)	$ 169.8	$ 183.6	$ 183.6
Reacquired on the open market (5,000 shares in 1985 and 137,350 in 1984)	(.5)	(13.8)	—
Outstanding at end of the year (1,693,294 shares in 1985, 1,698,294 in 1984 and 1,835,644 in 1983)	169.3	169.8	183.6
$3.75 series, stated value $100 per share, redeemable at Corporation option at $100 per share:			
Outstanding at beginning of the year (858,000 shares in 1985 and 1,000,000 in 1984 and 1983)	85.8	100.0	100.0
Reacquired on the open market (43,900 shares in 1985 and 142,000 in 1984)	(4.4)	(14.2)	—
Outstanding at end of the year (814,100 shares in 1985, 858,000 in 1984 and 1,000,000 in 1983)	81.4	85.8	100.0
Preference Stock, $0.10 par value (authorized, 100,000,000 shares in 1984), no shares issued	—	—	—
Common Stock, $1-2/3 par value (authorized, 1,000,000,000 shares):			
Issued at beginning of the year (317,504,133 shares in 1985, 315,711,299 in 1984 and 312,363,657 in 1983)	529.2	526.2	520.6
Newly issued stock used for bonus deliveries, sold under provisions of the Stock Option Plans, Employe Stock Ownership Plans, Savings-Stock Purchase Programs and the Dividend Reinvestment Plan (1,349,182 shares in 1985, 1,792,834 in 1984 and 3,029,593 in 1983) and exchanged for long-term debt (318,049 shares in 1983)	2.2	3.0	5.6
Issued at end of the year (318,853,315 shares in 1985, 317,504,133 in 1984 and 315,711,299 in 1983)	531.4	529.2	526.2
Class E Common Stock, $0.10 par value (authorized, 190,000,000 shares in 1984):			
Issued at beginning of the year (29,082,382 shares in 1985)	2.9	—	—
Issued as a public offering (3,125,000 shares)	.3	—	—
Two-for-one stock split in the form of a 100% stock dividend (31,742,670 shares)	3.2	—	—
Reacquired on the open market (651,804 shares)	(.1)	—	—
Issued in the acquisition of EDS in 1984 (11,371,268 shares)	—	1.1	—
Issued in conjunction with the EDS 1977 and 1984 Stock Incentive Plans (2,928,889 shares in 1985 and 2,270,160 in 1984) (Note 4)	.3	.2	—
Issued to $1-2/3 par value common stockholders as a dividend (15,440,954 shares in 1984)	—	1.6	—
Issued at end of the year (66,227,137 shares in 1985 and 29,082,382 in 1984)	6.6	2.9	—
Class H Common Stock, $0.10 par value (authorized, 600,000,000 shares in 1985):			
Issued in the acquisition of Hughes in 1985 (50,000,000 shares)	5.0	—	—
Issued to $1-2/3 par value common stockholders as a dividend (15,495,316 shares)	1.6	—	—
Issued at end of the year (65,495,316 shares in 1985)	6.6	—	—
Total capital stock at end of the year	795.3	787.7	809.8
Capital Surplus (principally additional paid-in capital):			
Balance at beginning of the year	3,347.8	2,136.8	1,930.4
Stated value in excess of repurchase price of preferred stock reacquired in open market transactions	2.9	16.2	—
Proceeds in excess of par value of newly issued $1-2/3 par value common stock used for bonus deliveries, sold under provisions of the Stock Option Plans, Employe Stock Ownership Plans, Savings-Stock Purchase Programs and the Dividend Reinvestment Plan and, in 1983, exchanged for long-term debt	90.7	109.7	206.4
Amounts in excess of par value of Class E common stock:			
Issued as a public offering	193.3	—	—
Two-for-one stock split in the form of a 100% stock dividend	(3.2)	—	—
Repurchase price in excess of par value of stocks reacquired in open market transactions	(125.8)	—	—
Issued in the acquisition of EDS	—	499.2	—
Issued in conjunction with EDS employe stock plans	34.7	.8	—
Issued as a dividend	—	585.1	—
Amounts in excess of par value of Class H common stock:			
Issued in the acquisition of Hughes	2,556.9	—	—
Issued as a dividend	570.5	—	—
Balance at end of the year	$6,667.8	$3,347.8	$2,136.8

(continued)

NOTE 14. (concluded)

(Dollars in Millions Except Per Share Amounts)	1985	1984	1983
Net Income Retained for Use in the Business:			
Balance at beginning of the year	$20,796.6	$18,390.5	$15,552.5
Net income	3,999.0	4,516.5	3,730.2
Total	24,795.6	22,907.0	19,282.7
Dividend of one Class E common share for each 20 shares of $1-2/3 par value common outstanding	—	586.7	—
Dividend of one Class H common share for each 20 shares of $1-2/3 par value common outstanding	572.1	—	—
Cash dividends:			
Preferred stock, $5.00 series, $5.00 per share	8.4	8.9	9.2
Preferred stock, $3.75 series, $3.75 per share	3.2	3.6	3.7
$1-2/3 par value common stock, $5.00 per share in 1985, $4.75 in 1984 and $2.80 in 1983	1,581.2	1,497.5	879.3
Class E common stock, $0.195 per share in 1985 and $0.045 in 1984 (post-split basis)	12.4	1.2	—
Cash payments in lieu of fractional shares of common stock issued as a dividend:			
Class E common	—	12.5	—
Class H common	11.7	—	—
Total cash dividends	1,616.9	1,523.7	892.2
Balance at end of the year	22,606.6	20,796.6	18,390.5
Accumulated Foreign Currency Translation and Other Adjustments:			
Balance at beginning of the year:			
Accumulated foreign currency translation adjustments	(789.5)	(661.8)	(668.0)
Net unrealized gains on marketable equity securities	71.7	91.3	68.1
Changes during the year:			
Accumulated foreign currency translation adjustments	114.5	(127.7)	6.2
Net unrealized gains (losses) on marketable equity securities	58.3	(19.6)	23.2
Balance at end of the year	(545.0)	(717.8)	(570.5)
Total Stockholders' Equity	$29,524.7	$24,214.3	$20,766.6

NOTE 15. Segment Reporting

General Motors is a highly vertically-integrated business operating primarily in a single industry consisting of the manufacture, assembly and sale of automobiles, trucks and related parts and accessories classified as automotive products. Because of the high degree of integration, substantial interdivisional and intercompany transfers of materials and services are made.

Substantially all of General Motors' products are marketed through retail dealers and through distributors and jobbers in the United States and Canada and through distributors and dealers overseas. To assist in the merchandising of General Motors' products, GMAC and its subsidiaries offer financial services and certain types of automobile insurance to dealers and customers.

Net sales and revenues, net income (loss), total and net assets and average number of employes in the U.S. and in locations outside the U.S. for 1985, 1984 and 1983 are summarized below. Net income (loss) is after provisions for deferred income taxes applicable to that portion of the undistributed earnings not deemed to be permanently invested, less available tax credits and deductions, and appropriate consolidating adjustments for the geographic areas set forth below. Interarea sales and revenues are made at negotiated selling prices.

1985	United States	Canada	Europe	Latin America	All Other	Total*
Net Sales and Revenues:			(Dollars in Millions)			
Outside	$80,204.7	$ 5,283.7	$7,671.6	$1,841.9	$1,369.8	$96,371.7
Interarea	8,893.8	8,494.6	322.8	995.5	483.7	—
Total net sales and revenues	$89,098.5	$13,778.3	$7,994.4	$2,837.4	$1,853.5	$96,371.7
Net Income (Loss)	$ 3,624.3	$ 473.7	($ 372.1)	$ 308.3	$ 9.1	$ 3,999.0
Total Assets	$50,796.0	$ 2,920.1	$5,960.6	$3,054.2	$1,634.6	$63,832.8
Net Assets	$26,710.0	$ 1,906.4	($ 765.7)	$1,327.8	$ 572.2	$29,524.7
Average Number of Employes (in thousands)	561	44	125	59	22	811

*After elimination of interarea transactions.

(continued)

NOTE 15. (concluded)

1984	United States	Canada	Europe	Latin America	All Other	Total*
Net Sales and Revenues:			(Dollars in Millions)			
Outside	$69,355.6	$ 4,411.6	$6,735.7	$1,642.0	$1,745.0	$83,889.9
Interarea	7,276.5	8,170.0	242.2	823.6	401.7	—
Total net sales and revenues	$76,632.1	$12,581.6	$6,977.9	$2,465.6	$2,146.7	$83,889.9
Net Income (Loss)	$ 3,872.0	$ 762.2	($ 291.1)	$ 94.4	$ 61.5	$ 4,516.5
Total Assets	$41,692.7	$ 2,833.5	$4,425.7	$2,874.0	$ 932.0	$52,144.9
Net Assets	$22,149.7	$ 1,628.9	($ 439.2)	$1,016.7	$ 41.7	$24,214.3
Average Number of Employes (in thousands)	511	41	122	49	25	748
1983						
Net Sales:						
Outside	$59,668.7	$ 3,866.4	$7,761.7	$1,742.7	$1,542.1	$74,581.6
Interarea	6,493.4	7,366.0	208.6	653.1	295.4	—
Total net sales	$66,162.1	$11,232.4	$7,970.3	$2,395.8	$1,837.5	$74,581.6
Net Income (Loss)	$ 3,469.0	$ 592.3	($ 228.3)	($ 15.0)	($ 91.1)	$ 3,730.2
Total Assets	$34,670.4	$ 2,385.5	$5,379.1	$2,834.3	$ 813.9	$45,694.5
Net Assets	$18,749.3	$ 1,332.9	($ 120.5)	$ 919.6	$ 8.9	$20,766.6
Average Number of Employes (in thousands)	463	39	123	41	25	691

*After elimination of interarea transactions.

NOTE 16. Profit Sharing Plans

Profit Sharing Plans were established, effective January 1, 1983, under which eligible United States hourly and salaried employes will share in the success of the Corporation's U.S. operations. Under the Plans' provisions, 10% of profits, as defined, will be shared when the Corporation's U.S. income before income taxes plus equity in U.S. earnings of non-consolidated subsidiaries (principally GMAC) exceeds 10% of the net worth of U.S. operations plus 5% of the difference between total assets of U.S. operations and net worth of U.S. operations. Amounts applicable to subsidiaries incorporated in the U.S. that are operating outside of the U.S., as well as amounts applicable to associates, are excluded from the calculation. Ten percent of the profits in excess of the minimum annual return, less a diversion for the Guaranteed Income Stream Benefit Program and Income Protection Plan and that portion of profit sharing allocable to non-participating employes, will be distributed to eligible U.S. employes by March 31 following the year earned. The accrual for profit sharing was $180.3 million in 1985, $281.9 million in 1984 and $322.2 million in 1983. The calculation of the profit sharing accrual for 1985 is shown below.

(Dollars in Millions)					1985
Minimum Annual Return	**January 1, 1985**	**December 31, 1985**	**Average**		
Total Assets in the U.S.	$41,692.7	$50,796.0			
Deduct assets of excluded subsidiaries and associates	2,018.5	6,368.2			
Total Assets of U.S. operations as defined in the Plans	$39,674.2	$44,427.8	$42,051.0		
Net Assets in the U.S.	$22,149.7	$26,710.0			
Deduct net assets of excluded subsidiaries and associates	1,609.3	3,263.8			
Net Worth of U.S. operations as defined in the Plans	$20,540.4	$23,446.2	21,993.3	X 10% =	$2,199.3
Other assets of U.S. operations			$20,057.7	X 5% =	1,002.9
Minimum Annual Return as defined in the Plans					$3,202.2

(continued)

NOTE 16. (concluded)

(Dollars in Millions)	1985
Profits as Defined in the Plans	
Net Income in the U.S.	$3,624.3
Add (Deduct): Net income of excluded subsidiaries and associates	(45.3)
Income taxes of U.S. operations	1,275.1
Provision for the General Motors Incentive Program applicable to U.S. operations	239.0
Profit sharing accrual	180.3
Profits as defined in the Plans	$5,273.4

Profit Sharing Accrual			
Profits as defined in the Plans	$5,273.4		
Deduct Minimum Annual Return as defined in the Plans	3,202.2		
Profits in excess of Minimum Annual Return	$2,071.2	X 10% =	$ 207.1
Deduct:			
Diversion for Guaranteed Income Stream Benefit Program and Income Protection Plan	$ 20.1		
Portion of profit sharing allocable to non-participating employes	6.7		26.8
Profit Sharing Accrual			$ 180.3

NOTE 17. Contingent Liabilities

There are serious potential liabilities under government regulations pertaining primarily to environmental, fuel economy and safety matters, but the ultimate liability under these regulations is not expected to have a material adverse effect on the Corporation's consolidated financial position. There are also various claims and pending actions against the Corporation and its subsidiaries with respect to commercial matters, including warranties and product liability, civil rights, antitrust, patent matters, taxes and other matters arising out of the conduct of the business. Certain of these actions purport to be class actions, seeking damages in very large amounts. The amounts of liability on these claims and actions at December 31, 1985 were not determinable but, in the opinion of the management, the ultimate liability resulting should not have a material adverse effect on the Corporation's consolidated financial position.

ACCOUNTANTS' REPORT

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New York, New York 10036

Deloitte
Haskins+Sells
CERTIFIED PUBLIC ACCOUNTANTS

General Motors Corporation, its Directors and Stockholders: February 3, 1986

We have examined the Consolidated Balance Sheet of General Motors Corporation and consolidated subsidiaries as of December 31, 1985 and 1984 and the related Statements of Consolidated Income and Changes in Consolidated Financial Position for each of the three years in the period ended December 31, 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the companies at December 31, 1985 and 1984 and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1985, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins + Sells

SUPPLEMENTARY INFORMATION

Selected Quarterly Data (Dollars in Millions Except Per Share Amounts)	1985 Quarters				1984 Quarters			
	1st	2nd	3rd	4th	1st	2nd	3rd	4th
Net sales and revenues	$24,182.5	$25,056.9	$22,491.7	$24,640.6	$22,886.4	$21,583.3	$18,542.6	$20,877.6
Operating income (loss)	1,529.3	1,467.8	(20.9)	1,238.2	2,424.7	1,546.8	306.9	421.6
Income before income taxes	1,632.2	1,664.4	74.8	1,249.9	2,487.4	1,786.5	526.0	704.4
United States, foreign and other income taxes (credit)	781.8	716.5	(172.4)	304.4	1,097.5	384.7	277.8	45.1
Income after income taxes	850.4	947.9	247.2	945.5	1,389.9	1,401.8	248.2	659.3
Equity in earnings of nonconsolidated subsidiaries and associates	221.3	211.4	269.3	306.0	224.1	207.0	168.6	217.6
Net income	1,071.7	1,159.3	516.5	1,251.5	1,614.0	1,608.8	416.8	876.9
Dividends on preferred stocks	2.9	2.9	3.0	2.8	3.2	3.2	3.1	3.0
Earnings on common stocks	$ 1,068.8	$ 1,156.4	$ 513.5	$ 1,248.7	$ 1,610.8	$ 1,605.6	$ 413.7	$ 873.9
Earnings attributable to:								
$1-2/3 par value common stock	$ 1,048.6	$ 1,132.8	$ 485.1	$ 1,217.1	$ 1,610.8	$ 1,605.6	$ 413.7	$ 868.2
Class E common stock (issued in 1984)	$ 20.2	$ 23.6	$ 28.4	$ 31.6	–	–	–	$ 5.7
Average number of shares of common stocks outstanding (in millions):								
$1-2/3 par value common	316.2	316.4	316.4	316.3	315.2	315.5	315.3	315.3
Class E common (issued in 1984)*	64.7	67.8	66.7	67.0	–	–	–	36.3
Number of shares of Class H common outstanding (issued in December 1985)	–	–	–	65.5	–	–	–	–
Earnings per share attributable to:								
$1-2/3 par value common stock**	$3.32	$3.58	$1.53	$3.85	$5.11	$5.09	$1.31	$2.76
Class E common stock (issued in 1984)*	$0.32	$0.35	$0.43	$0.47	–	–	–	$0.16
Cash dividends per share of common stocks:								
$1-2/3 par value common	$1.25	$1.25	$1.25	$1.25	$1.00	$1.25	$1.25	$1.25
Class E common (issued in 1984)*	$0.045	$0.05	$0.05	$0.05	–	–	–	$0.045
Stock price range:								
$1-2/3 par value common***								
High	$85.00	$75.13	$73.88	$77.25	$80.50	$68.25	$80.25	$82.75
Low	$72.50	$66.00	$65.75	$64.25	$62.63	$61.00	$64.25	$73.38
Class E common (issued in 1984)****								
High*	$36.00	$42.00	$46.50	$43.63	–	–	–	$21.25
Low*	$20.63	$29.75	$35.00	$32.88	–	–	–	$16.50
Class H common (issued in 1985)*****								
High	–	–	–	$50.00	–	–	–	–
Low	–	–	–	$38.00	–	–	–	–

Earnings and earnings per share attributable to common stocks have been restated to reflect the Class E common stock amendment approved by the stockholders in December 1985. Previously reported earnings and earnings per share, respectively, attributable to common stocks for the first three quarters of 1985 and the fourth quarter of 1984, respectively, were as follows (in millions and in dollars): $1-2/3 par value common stock—$1,030.8 [$3.26], $1,113.9 [$3.52], $461.6 [$1.46] and $855.2 [$2.71]; Class E common stock—$38.0 [$0.63], $42.5 [$0.67], $51.9 [$0.78] and $18.7 [$1.03].

*Adjusted to reflect the two-for-one stock split in the form of a 100% stock dividend distributed on June 10, 1985.

**Includes favorable (unfavorable) effects on earnings per share of: foreign exchange/translation activity [1985: first quarter—($0.18), second quarter—($0.23), third quarter—$0.38, fourth quarter—$0.28; 1984: first quarter—$0.24, second quarter—($0.23), third quarter—($0.45), fourth quarter $0.24] and an adjustment of income taxes of $1.34 in the 1984 second quarter reflecting a change in the provisions covering domestic international sales corporations (DISC) in accordance with the Deficit Reduction Act of 1984.

***The principal market is the New York Stock Exchange and prices are based on the Composite Tape. $1-2/3 par value common stock is also listed on the Midwest, Pacific and Philadelphia stock exchanges. As of December 31, 1985, there were 914,905 holders of record of $1-2/3 par value common stock.

****The principal market is the New York Stock Exchange and prices are based on the Composite Tape. As of December 31, 1985, there were 482,345 holders of record of Class E common stock. Market prices were on a "when issued" basis prior to December 12, 1984.

*****The principal market is the New York Stock Exchange and prices are based on the Composite Tape. As of December 31, 1985, there were 592,345 holders of record of Class H common stock. Market prices were on a "when issued" basis prior to December 31, 1985.

The effective income tax rates and credit for the 1985 quarters reflect the favorable impact of U.S. investment tax credits. The effective income tax rate for the 1984 second quarter reflects the $421.3 million reversal of deferred income taxes related to DISC legislation; the rate for the third quarter reflects losses at overseas subsidiaries where no applicable tax credits were available; and the rate for the fourth quarter reflects higher investment tax credits due to increased capital expenditures and the effect of foreign tax credits on dividends declared by subsidiaries, applied to lower pretax earnings.

(continued)

Selected Financial Data
(Dollars in Millions Except Per Share Amounts)

	1985	1984	1983	1982	1981
Net sales and revenues	$96,371.7	$83,889.9	$74,581.6	$60,025.6	$62,698.5
Earnings attributable to $1-2/3 par value common stock	$ 3,883.6	$ 4,498.3	$ 3,717.3	$ 949.8	$ 320.5
Cash dividends on $1-2/3 par value common stock	1,592.9	1,510.0	879.3	737.3	717.6
Dividend of Class E common shares	—	586.7	—	—	—
Dividend of Class H common shares	572.1	—	—	—	—
Net income (loss) retained in the year	$ 1,718.6	$ 2,401.6	$ 2,838.0	$ 212.5	($ 397.1)
Earnings per share attributable to $1-2/3 par value common stock	$12.28	$14.27	$11.84	$3.09	$1.07
Cash dividends per share of $1-2/3 par value common stock	5.00	4.75	2.80	2.40	2.40
Per share dividend of Class E common shares	—	1.90	—	—	—
Per share dividend of Class H common shares	1.94	—	—	—	—
Net income (loss) per share retained in the year	$ 5.34	$ 7.62	$ 9.04	$0.69	($1.33)
Earnings attributable to Class E common stock (issued in 1984)	$ 103.8	$ 5.7	—	—	—
Cash dividends on Class E common stock (issued in 1984)	12.4	1.2	—	—	—
Net income retained in the year	$ 91.4	$ 4.5	—	—	—
Earnings per share attributable to Class E common stock*	$1.57	$0.16	—	—	—
Cash dividends per share of Class E common stock*	0.195	0.045	—	—	—
Net income per share retained in the year*	$1.375	$0.115	—	—	—
Average number of shares of common stocks outstanding (in millions):					
$1-2/3 par value common	316.3	315.3	313.9	307.4	299.1
Class E common (issued in 1984)*	66.5	36.3	—	—	—
Cash dividends on capital stocks as a percent of net income	40.4%	33.7%	23.9%	77.9%	219.1%
Expenditures for real estate, plants and equipment	$ 8,047.9**	$ 3,595.1	$ 1,923.0	$ 3,611.1	$ 6,563.3
Expenditures for special tools	$ 3,075.0	$ 2,452.1	$ 2,083.7	$ 2,601.0	$ 3,178.1
Cash and marketable securities	$ 5,114.4	$ 8,567.4	$ 6,216.9	$ 3,126.2	$ 1,320.7
Working capital	$ 1,957.5	$ 6,276.7	$ 5,890.8	$ 1,658.1	$ 1,158.8
Total assets	$63,832.8	$52,144.9	$45,694.5	$41,397.8	$38,979.0
Long-term debt and capitalized leases	$ 2,867.2	$ 2,772.9	$ 3,521.8	$ 4,745.1	$ 4,044.0

Earnings and earnings per share attributable to common stocks have been restated to reflect the Class E common stock amendment approved by the stockholders in December 1985.

Financial data for years prior to 1983 have not been restated for the adoption of Statement of Financial Accounting Standards No. 52, Foreign Currency Translation.

*Adjusted to reflect the two-for-one stock split in the form of a 100% stock dividend distributed on June 10, 1985.

**Includes $1,948.7 million of net property acquired in Hughes acquisition.

EFFECTS OF INFLATION ON FINANCIAL DATA

The accompanying Schedule displays the basic historical cost financial data adjusted for changes in specific prices (current cost) for use in the evaluation of comparative financial results.

The current cost of inventories was estimated based on costs in effect at December 31, 1985. Cost of sales for inventories maintained on a first-in, first-out basis was restated to a current cost basis using the specific level of prices at the time the goods were sold.

The current cost of property owned and the related depreciation and amortization expense for U.S. operations were calculated by applying (1) selected producer price indices to historical book values of machinery and equipment and (2) the Marshall Valuation Service index to buildings, and the use of assessed values for land. For locations outside the United States, such amounts were calculated generally by applying indices closely related to the assets being measured and translating the resulting amounts using year-end foreign currency exchange rates. Depreciation and amortization were calculated on a straight-line basis.

The purpose of this type of restatement is to furnish estimates of the effects of price increases for replacement of inventories and property on the potential future net income of the business and thus assess the probability of future cash flows. A more meaningful estimate of the effects of such costs on future earnings is the estimated level of future capital expenditures which is set forth on page 16 in the Financial Review: Management's Discussion and Analysis.

Under the current cost method, the net income of General Motors is lower (or the net loss is higher) than that determined under the historical cost method. This means that businesses, as well as individuals, are affected by inflation and that the purchasing power of business dollars also has declined. In addition, the costs of maintaining the productive capacity, as reflected in the current cost data (and estimate of future capital expenditures), have increased, and thus management must seek ways to cope with the effects of inflation through accounting methods such as the LIFO method of inventory valuation, which matches current costs with current revenues, and through accelerated methods of depreciation and amortization.

Selected Data Adjusted for Effects of Changing Prices
(Dollars in Millions Except Per Share Amounts)

Historical data adjusted for changes in specific prices (current cost)*:	1985	1984	1983	1982	1981
Net Sales and Revenues	$96,371.7	$86,883.1	$80,530.1	$66,898.1	$74,161.0
Cost of sales	81,717.8	72,777.3	65,613.7	57,859.0	65,544.2
Depreciation and amortization of property	6,577.1	5,177.8	5,817.6	5,504.6	6,150.8
Other operating and nonoperating items—net	3,226.6	2,537.9	3,011.7	3,584.5	3,426.4
United States and other income taxes	1,630.3	1,869.5	2,401.2	(281.1)	(145.6)
Total costs and expenses	93,151.8	82,362.5	76,844.2	66,667.0	74,975.8
Net Income (Loss)	$ 3,219.9	$ 4,520.6	$ 3,685.9	$ 231.1	($ 814.8)
Earnings (Loss) per share attributable to $1-2/3 par value common stock	$9.82	$14.32	$11.74	$0.75	($2.72)
Earnings per share attributable to Class E common stock (issued in 1984)	$1.57	$0.17	—	—	—
Cash dividends per share of $1-2/3 par value common stock	$5.00	$4.92	$3.02	$2.67	$2.84
Cash dividends per share of Class E common stock (issued in 1984)	$0.195	$0.047	—	—	—
Net assets at year-end	$39,780.9	$25,078.3	$22,422.9	$20,380.8	$20,960.9
Accumulated foreign currency translation adjustments	$ 118.9	($ 166.7)	($ 418.4)	—	—
Unrealized gain from decline in purchasing power of dollars of net amounts owed	$ 257.3	$ 162.8	$ 278.6	$ 420.6	$ 777.5
Excess of increase in general price level over increase in specific prices of inventories and property	$ 465.6**	$ 1,033.7	$ 252.6	$ 2,775.2	$ 1,994.5
Market price per $1-2/3 par value common share at year-end	$70.38	$81.18	$80.31	$69.52	$45.54
Market price per Class E common share at year-end (issued in 1984)	$40.88	$43.89	—	—	—
Market price per Class H common share at year-end (issued in 1985)	$38.25	—	—	—	—
Average Consumer Price Index	322.2	311.1	298.4	289.1	272.4

*Data have been adjusted to 1985 dollars.

**At December 31, 1985, current cost of inventories was $10,456.6 million and current cost of property (including special tools), net of accumulated depreciation and amortization, was $32,722.4 million.

BOARD OF DIRECTORS

Anne L. Armstrong
Chairman, President's Foreign Intelligence Advisory Board
Director—9 Years

Walter A. Fallon
Former Chairman of the Board, Eastman Kodak Company (Photographic Equipment, Chemicals, and Fibers)
Director—13 Years

John J. Horan
Vice Chairman of the Board, Merck & Co., Inc. (Health Products)
Director—6 Years

Ross Perot
Chairman of the Board, Electronic Data Systems Corporation
Director—1 Year

Roger B. Smith
Chairman, Board of Directors and Chief Executive Officer
Service—37 Years
Director—11 Years

Donald J. Atwood
Executive Vice President, Power Products and Components Groups and President, GM Hughes Electronics Corporation
Service—26 Years
Director—2 Years

Charles T. Fisher, III
Chairman and President, NBD Bancorp Inc. (Banking)
Director—14 Years

Howard H. Kehrl
Vice Chairman, Board of Directors
Service—38 Years
Director—11 Years

Edmund T. Pratt, Jr.
Chairman of the Board, Pfizer Inc. (Pharmaceutical Products, Cosmetics, and Chemicals)
Director—9 Years

Robert C. Stempel
Executive Vice President Truck & Bus Group and Overseas Group
Service—28 Years
Joined Board February 3, 1986

Catherine B. Cleary
Former Chairman of the Board, First Wisconsin Trust Company (Trust Services)
Director—13 Years

Marvin L. Goldberger
President, California Institute of Technology (Education)
Director—5 Years

F. James McDonald
President and Chief Operating Officer
Service—45 Years
Director—11 Years

Lloyd E. Reuss
Executive Vice President North American Passenger Car Groups
Service—28 Years
Joined Board February 3, 1986

Leon H. Sullivan
Pastor, Zion Baptist Church of Philadelphia
Director—15 Years

Alexander A. Cunningham*
Executive Vice President, North American Automotive Operations
Service—38 Years
Director—2 Years

Robert S. Hatfield
Former Chairman of the Board, The Continental Group, Inc. (Packaging Products)
Director—12 Years

W. Earle McLaughlin
Former Chairman of the Board, The Royal Bank of Canada (Banking)
Director—19 Years

John G. Smale
President and Chief Executive The Procter & Gamble Company (Household and Industrial Products)
Director—4 Years

Charles H. Townes
Professor, University of California (Physics)
Director—12 Years

James H. Evans
Former Chairman of the Board, Union Pacific Corporation (Transportation, Energy, and Natural Resources)
Director—6 Years

Raymond H. Herzog
Former Chairman of the Board, Minnesota Mining and Manufacturing Company (Household and Industrial Products)
Director—8 Years

Thomas A. Murphy
Former Chairman, Board of Directors
Director—14 Years

F. Alan Smith
Executive Vice President, Finance
Service—30 Years
Director—5 Years

Thomas H. Wyman
Chairman of the Board, CBS Inc. (Television, Radio, and Other Media)
Joined Board May 24, 1985

COMMITTEES OF THE BOARD

THE FINANCE COMMITTEE includes both employe and non-employe Directors and is responsible for the determination of financial policies and the management of financial affairs including matters such as capital requirements and dividend recommendations to the Board.

Roger B. Smith, *Chairman*
Walter A. Fallon
Charles T. Fisher, III
Robert S. Hatfield
Howard H. Kehrl
F. James McDonald
Thomas A. Murphy
Edmund T. Pratt, Jr.
John G. Smale
F. Alan Smith

THE EXECUTIVE COMMITTEE is composed entirely of employe Directors and is responsible for determining operating policies, including product plans and the need for capital expenditures.

F. James McDonald, *Chairman*
Donald J. Atwood
Alexander A. Cunningham*
Howard H. Kehrl
Lloyd E. Reuss
F. Alan Smith
Roger B. Smith
Robert C. Stempel

THE AUDIT COMMITTEE, composed entirely of non-employe Directors, selects the independent public accountants annually in advance of the Annual Meeting of Stockholders and submits the selection for ratification at the Meeting. In addition, the Committee reviews the scope and results of the audits, the accounting principles being applied, the effectiveness of the internal controls, and, in its oversight role, assures that management fulfills its responsibilities in the preparation of the financial statements.

W. Earle McLaughlin, *Chairman*
Anne L. Armstrong
James H. Evans
Marvin L. Goldberger
John J. Horan
Leon H. Sullivan
Charles H. Townes

THE NOMINATING COMMITTEE, composed entirely of non-employe Directors, conducts continuing studies of the size and composition of the Board of Directors and recommends candidates for membership.

Robert S. Hatfield, *Chairman*
Catherine B. Cleary
James H. Evans
Walter A. Fallon
Charles T. Fisher, III
John J. Horan

THE INCENTIVE & COMPENSATION COMMITTEE, composed entirely of non-employe Directors, reviews executive compensation plans and benefit programs and determines compensation of Corporate officers and other members of the management group.

Walter A. Fallon, *Chairman*
Anne L. Armstrong
James H. Evans
Charles T. Fisher, III
Robert S. Hatfield
Raymond H. Herzog
Thomas A. Murphy
Edmund T. Pratt, Jr.
John G. Smale

THE PUBLIC POLICY COMMITTEE, composed entirely of non-employe Directors, inquires into every phase of Corporate activities that relate to public policy and makes appropriate recommendations to management or the full Board.

Catherine B. Cleary, *Chairman*
Marvin L. Goldberger
John J. Horan
Ross Perot
Leon H. Sullivan
Charles H. Townes
Thomas H. Wyman

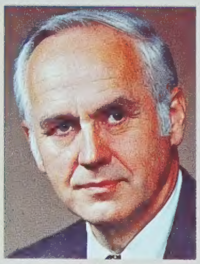
*Member of the Board of Directors and Executive Committee until February 1, 1986

OFFICERS

EXECUTIVE COMMITTEE

ROGER B. SMITH
Chairman and Chief Executive Officer

F. JAMES McDONALD
President and Chief Operating Officer



HOWARD H. KEHRL
Vice Chairman

DONALD J. ATWOOD
Executive Vice President

ALEXANDER A. CUNNINGHAM*
Executive Vice President

LLOYD E. REUSS†
Executive Vice President

F. ALAN SMITH
Executive Vice President

ROBERT C. STEMPEL†
Executive Vice President

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Quality and Reliability and Service Parts Operations Group

John D. Debbink
Power Products Group

John R. Edman
Finance Group

William E. Hoglund†
Buick, Oldsmobile, Cadillac Group

Elmer W. Johnson
Operating Staffs Group and General Counsel

Charles Katko
Truck & Bus Group

Alex C. Mair
Technical Staffs Group

E. Michael Mutchler†
Electrical Components Group

Robert J. Schultz†
Chevrolet, Pontiac, GM of Canada Group

W. Blair Thompson
Mechanical Components Group

James F. Waters, Jr.
Overseas Group

Marina v.N. Whitman
Public Affairs Staffs Group and Chief Economist

VICE PRESIDENTS

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Environmental Activities Staff

John F. Beck
International Export Sales

Ferdinand P. J. Beickler
President
General Motors Europe - Passenger Cars

Charles J. Brady
Current Engineering and Manufacturing Services Staff

Barton Brown
Asian and African Operations

Robert D. Burger
General Manager
Chevrolet Motor Division

David D. Campbell
Group Director - Operations
Chevrolet, Pontiac, GM of Canada Group

Charles S. Chapman
Managing Director
General Motors-Holden's Limited

Patrick J. Coletta
Group Director
Truck & Bus Operations

Gary W. Dickinson
Group Director - Engineering
Chevrolet, Pontiac, GM of Canada Group

Robert A. Dorshimer
Group Director - Engineering
Buick, Oldsmobile, Cadillac Group

Robert J. Eaton
Advanced Engineering Staff

Robert A. Frosch
Research Laboratories

John O. Grettenberger
General Manager
Cadillac Motor Car Division

Donald E. Hackworth
General Manager
Buick Motor Division

Eugene L. Hartwig
Associate General Counsel

Peter K. Hoglund
General Manager
Electro-Motive Division

James D. Johnston
Industry-Government Relations

Ludvik F. Koci
General Manager
Detroit Diesel Allison Division

William W. Lane
General Manager
Oldsmobile Division

Richard G. LeFauve†
President
Saturn Corporation

J. Michael Losh
General Manager
Pontiac Motor Division

William P. MacKinnon
Personnel Administration and Development Staff

John P. McCormack
Latin American and South African Operations

John W. McNulty
Public Relations Staff

Robert T. O'Connell
Marketing and Product Planning Staff

Donald A. Pais
Materials Management Staff

George A. Peapples†
President and General Manager
General Motors of Canada Limited

Irvin W. Rybicki
Design Staff

John F. Smith, Jr.†
Executive Vice President - Operations and Engineering
General Motors Europe - Passenger Cars

Robert B. Stone
Managing Director
General Motors de Mexico, S.A. de C.V.

Clifford J. Vaughan
Managing Director
General Motors do Brasil S.A.

James G. Vorhes
Customer Sales and Service Staff

Alfred S. Warren, Jr.
Industrial Relations Staff

Paul H. Zalecki
Associate General Counsel

STAFF OFFICERS

Leon J. Krain
Treasurer

John E. Rhame
Comptroller

Diane L. Kaye
Secretary

*Effective February 1, 1986, on disability leave of absence

†Effective February 3, 1986

VAUXHALL CAVALIER GLi Hatchback

GM do BRASIL CHEVY OPALA COMODORO Coupe

STOCKHOLDER INFORMATION

The Annual Meeting of Stockholders
will be held at 9:00 a.m. on Friday, May 23, 1986 in Detroit, Michigan.

It is expected that proxy material will be sent to stockholders beginning about April 18, 1986, at which time proxies for use at this Meeting will be requested.

Principal Offices
General Motors Corporation
(a Delaware Corporation)
3044 West Grand Boulevard
Detroit, Michigan 48202

767 Fifth Avenue
New York, New York 10153

Stock Transfer Offices
Morgan Guaranty Trust Company of New York
30 West Broadway
New York, New York 10015

National Trust Company Limited
21 King Street, East
Toronto, Ontario M5C 1B3, Canada

National Trust Company Limited
1350 Sherbrooke Street, West
Montreal, Quebec H3G 1J1, Canada

The following materials are available for distribution to stockholders:

S.E.C. Form 10-K
Stockholders may obtain a copy of the General Motors Corporation Annual Report to the Securities and Exchange Commission on Form 10-K after April 1, 1986.

1986 Public Interest Report
GM's 16th successive annual accounting of its programs, progress, and goals in various areas of public interest will be available in a booklet, "1986 General Motors Public Interest Report," about May 1, 1986.

Tape Recording of 1985 GM Annual Report
A cassette tape recording of major portions of the 1985 Annual Report will be available after April 1, 1986 at no charge for distribution to handicapped persons.

Requests specifying the materials desired should be sent to:
General Motors Corporation, Room 11-229, General Motors Building
3044 West Grand Boulevard, Detroit, Michigan 48202 (313-556-2044)

OPEL KADETT GLS Sedan

HOLDEN CAMIRA SLE Sedan

BEDFORD ASTRAMAX

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General Motors Corporation Detroit, Michigan 48202

OLDSMOBILE DELTA 88 ROYALE BROUGHAM Coupe

BUICK LE SABRE LIMITED Sedan